

Confrontation

...between READERS and AUTHORS

Comments on Herbert H. Meyer's "The Pay for Performance Dilemma"
(Organizational Dynamics, Winter 1975).

Dear Herb:

Not surprisingly, I find myself in substantial disagreement with the article "The Pay for Performance Dilemma." It is written from a black-white point of view. That is, rather than taking a diagnostic perspective on the problem of relating pay to performance and trying to figure out where it will work and where it will not, the article tries to reach universal conclusions. I think this is a big mistake. It seems quite clear to me that in some situations pay should be related to performance and in others it should not. The challenge is to figure out when it should be and when it should not be and how to do it in those situations where it should be.

There is a great deal of research evidence that when pay is effectively tied to performance a number of good outcomes occur: Employees are motivated, turnover occurs primarily among poor performers, and pay satisfaction is higher. These outcomes can improve both the quality of work and organizational effectiveness; thus I believe that careful study should be undertaken to determine whether pay can be meaningfully related to performance *before* the decision is made not to relate it.

Certainly it is true that most people are dissatisfied with their pay. However, Herb, you ignore the fact that most people also say that they believe pay should be based on performance and that pay satisfaction is highest when pay is based on performance. Thus I am not at all convinced that moving away from pay for perfor-

mance and thereby away from the preferences of people will increase pay satisfaction.

The comment about Deci's work is interesting. However, I certainly would not call it strong evidence. Most of it comes from laboratory settings and a small number of studies. I might note that some other studies have failed to replicate his results; moreover, the data are concerned with how people perform after they have stopped receiving extrinsic rewards, not during the time they receive extrinsic rewards. Thus the results do not seem so directly applicable to the work situation as you imply that they are. In most work situations, individuals are always subject to extrinsic rewards.

I agree that competition among employees is usually dysfunctional, but it is not always dysfunctional. It depends on how interdependent jobs are. Further, pay systems do not always cause competition. Here is an example of your failing to differentiate among different kinds of merit-pay plans. For example, the evidence on approaches to compensation such as the Scanlon plan shows that they lead to cooperation.

I, too, have found that employees tend to rate themselves highly when self-ratings are asked for. I am not sure, however, that I agree with your solution to this problem, which seems to be to let everyone think that they are top performers and thereby build their self-esteem. It seems to me that true self-esteem is based on an accurate self-image, not a self-image that is artificially inflated. Further, it seems to me that this

problem will exist whether you relate pay to performance or not, since there are other reasons for evaluating performance in organizations (for example, training and development).

I agree that because people have high salary expectations, any merit-pay plan will be perceived as unfair by some people. I don't think paying everybody the same thing solves this problem, however. It seems to me that since everyone gets the same reward, it may in fact worsen the problem. People want to be rewarded for their performance, and if everyone believes they are above average in performance, paying everyone an average wage seems to guarantee that everyone will be dissatisfied with their pay—rather than just those who are, in fact, average and below average in pay on a merit system. In fact, the high self-ratings of people seem to make it even more important that merit pay exists. Only with merit pay can you hope to satisfy the truly good performers that the organization wishes to retain. Paying everyone the same thing, it seems to me, would guarantee that they will be dissatisfied along with everyone else. In short, you cannot satisfy everybody—but with merit pay, you can at least try to satisfy those who are the best performers and whom you wish to retain.

The cry for using intrinsic motivation is certainly well taken. I think it can be an important motivator. However, most of the research on intrinsic motivation shows that it requires feedback and knowledge of results. Presumably this requires some sort of performance measurement just as does merit pay. Thus it's often true that an organization that cannot pay for performance also cannot use intrinsic motivation. Finally it is important to note that pay is an important source of feedback and can contribute to intrinsic motivation.

I find the praising of behavioral modification particularly ironical. Perhaps more than any other motivation technique, it depends upon measuring performance and tying rewards to it. This is just what's been objected to earlier in the paper. It is also important to remember that little evidence exists to show that behavioral modification can be effective in work situations. It is one

thing to use it with pigeons. It is another to use it with employees. There are many unsolved practical and ethical problems involved in using it with employees.

Last, I find the argument that promotions can be used as an incentive particularly surprising. If promotions are going to be used as an incentive, presumably they too have to be based on merit and measurement. It seems to me that all the arguments that you have made previously for not basing pay on performance would be relevant in the case of not basing promotions on performance. High performance perceptions lead everyone to think that they should be promoted. Therefore, promoting only a few people, as inevitably happens, is going to cause dissatisfaction. I simply don't see how you can argue that promotion decisions can be based on more objective criteria. In fact, I would argue quite the opposite. Promotions must involve not only how well a person is doing in his present position, but how well a person might do in a future position. Thus it is more difficult to base them on performance and to make them motivators. In fact, basing them on past performance could end up destroying an organization by placing unqualified individuals in the top positions. Finally, they are less flexible and can be made only at certain times, such as when positions are open.

I don't know of any evidence that peer nominations have actually been used in practice successfully for making promotion decisions. If so, I'd like to know about it. Since this would represent an important development it also seems to me that if they're good for making promotion decisions, why aren't they good for making pay decisions? Nor do I know of any evidence that assessment centers lead to people's perceiving that promotions are made on objective bases.

The answer of course is that the centers don't measure actual job performance. Thus tying rewards to performance in them is more likely to motivate people to perform well in them than it is to motivate them to perform their jobs well. In fact, I think that very heavy reliance on assessment centers for promotion decisions could have a negative effect on motivation.

In summary, Herb, I am concerned that your article may do a real disservice if it convinces organizations to drop pay-for-performance plans in favor of such things as promotion plans based upon assessment-center results.

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Reply to Edward E. Lawler III

Dear Ed:

Thank you very much for your prompt reply to my request for a critique of the article I sent you on pay for performance. I not only appreciated the fact that you took the time to provide a very detailed critique, but I especially appreciated receiving the manuscript on reward systems that you are evidently preparing for publication.

By way of background, I became interested in the topic of merit pay for the same reasons that I became interested in the performance-appraisal process about ten or fifteen years ago. In both of these programs, the simple and very clear reward and knowledge-of-results theories on which they are based would indicate that they *should be* very effective programs in practice. However, in the case of both programs, I saw a very great discrepancy between the effects these programs would be expected to have in theory and the actual effects they seemed to have in practice. Therefore, I sought to discover what factors might account for these discrepancies. In both cases, the effects on an individual's self-esteem seemed to hold the key to the failure of the programs.

Your suggestion in the first paragraph of your letter—that I should take a diagnostic perspective to the problem of relating pay to performance and try to figure out where it will work and where it will not—points up a serious shortcoming in my presentation. Actually, I meant to critique in this article only the very common kind of merit-pay program under which

an individual's pay is adjusted annually on the basis of the supervisor's appraisal. I did not mean to encompass in this article all kinds of contingent-reward pay plans, such as piecework, sales-commission plans, and the like. I did refer to commission plans for salesmen at one point, and there pointed out that such an approach did not have the undesirable characteristics of the more common "merit-pay" program. There are also undoubtedly some situations where a "piecework" pay plan would be very effective, although the experience of most companies would indicate that these are very rare. If I were to employ fruit pickers in an orchard or grove, for example, I believe that I would certainly want to pay them on a piecework basis. Perhaps I was led astray on the use of terminology by the fact that in General Electric the merit-pay programs, in which pay adjustments were based almost solely on supervisory judgments, were always called "pay for performance" plans. I hope that many others didn't read the article in the same frame of reference, but I must admit that in re-reading it I can see that this may very well have been the case.

I may also have been guilty of overstatement—that is, stating things from a "black-white" point of view. My only defense for this is that the article was written for mainly a managerial audience, not for professional colleagues, and the preferred writing style for such a group is somewhat different from the approach used for a professional audience. Also, this is more of a position paper than a research report.

In your second paragraph you state that I ignored the fact that most people believe pay should be based on performance. This fact was not ignored. On page 45 I state that most employees do prefer a merit-pay plan. However, I also state the reason for this: Almost everyone thinks that he is a top performer and that therefore, if the plan is well administered, he will make out better than the average. In cases where people reject the merit-pay idea, it is usually because they distrust the administration—thinking that the wrong criteria may be used. They know that if management used the proper criteria, they would be one of the top-paid persons. This