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Why Pay Incentives Are Destined to Fail

—Nip Rogers

And How They Could Undermine School Reform

By Andrea Gabor

The quest for the perfect pay-for-performance plan has been the holy grail of management experts for decades. So it is no surprise that as education reformers want principals to act more like CEOs and to boost teacher performance, they are turning to pay incentives—for schools, principals, and individual teachers—as the panacea for turning around school performance.

If industry is any guide, the bid to use incentive pay to improve education and teacher performance is illusive at best. To the extent that individualized incentives undermine team-based collaboration, they could create more problems than they solve.

The pressure to offer educators pay incentives grows out of the powerful influence of corporate-management ideas on education. However, contrary to popular belief, there is virtually no evidence that pay is a driver of long-term good performance in industry. Indeed, some of the most respected business practitioners and thinkers oppose individualized incentives. The cultural resonance of differentiated pay, which conjures conflicting images of obscene Wall Street bonus checks and lofty notions of individual accountability, and the havoc that many incentive schemes have wreaked in industry suggest that the issue deserves closer scrutiny.

The key assumption behind pay for performance is that money motivates individuals to work harder and better. CEOs, in particular, have invested the paycheck with almost magical powers to manipulate performance, arguing that individuals respond to external incentives and that money is the best motivator. Even multimillionaire bankers respond to incentive pay—not because the extra money necessarily makes a difference, so the argument goes, but because it is a way to "keep score."

Yet, the pay-for-performance mantra runs counter to the thinking of some outlier companies—most famously Whole Foods and Ben & Jerry's—whose pay philosophies reflect skepticism about the efficacy of individualized incentives. Proponents also are tone deaf to the cultural differences that may make a compensation system that works for, say, GE or Bertelsmann a disaster at PS 6.

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Decades ago, Frederick Herzberg, whose 1968 treatise against incentive pay, "One More Time: How Do You Motivate Employees?," was the most-requested Harvard Business School article for decades, explained why money doesn't motivate in the long term. Money, he argued, is a "hygiene factor": Not enough of it causes distress, but money alone has little to do with job satisfaction or performance. Not surprisingly, companies are perpetually dissatisfied with their incentive systems, which leads to constant tinkering and more business for compensation consultants.

The biggest problem with incentive pay is that it is inevitably seen as unfair. Evaluation systems linked to single metrics, like test scores, are easily gamed—consider states that have dumbed down tests. More-nuanced approaches that include multiple measures, such as graduation and attendance rates, are often seen as too subjective. (While group incentives are more successful, they are not as popular.)

The best that can be said for individualized incentives is that within some highly competitive organizations such as securities firms or companies like GE, they foster a culture of competitiveness that is considered important to the organizational DNA and independent of fairness or efficacy.

Yet, individualized incentive pay, even at the most successful companies, is usually a failure. Years ago, for example, IBM, even as it was marketing its employee-hiring and -training expertise, instituted a forced-ranking scheme that required all supervisors to identify and reward the "top" 10 percent of its employees and to give the "bottom" 10 percent a failing grade and just three months to improve their performance or be fired. It was no coincidence that the system was instituted during an economic downturn, and was widely seen as a way to get rid of employees without violating the company's no-layoff pledge. (IBM's bell curve violated—as it usually does—basic statistical rules: Bell curves only work when they are applied to large random samples—not to relatively small, carefully selected groups of employees.) Some IBM supervisors got around the problem by creating a "designated dummy" system, by which employees took turns getting a low ranking during performance reviews. Following an employee revolt, Big Blue eventually modified its forced-ranking system, but remained wedded to individualized pay and rankings.

More recently, as IBM has become a player in the open-source-software movement, the company is once again confronting the contradictions between its pay philosophy and the need to develop a flatter, more collaborative management style. Today, scores of IBM software engineers spend most of their time working on open-source software, precisely because the open-source world, a self-organized system still dominated by thousands of volunteers, produces higher-quality software than the private sector. Think Mozilla's Firefox Web browser vs. Microsoft's Explorer. The no-hierarchy, all-meritocracy culture of open source violates every assumption about the link between pay and performance: In open source, software developers collaborate without any monetary compensation at all; the incentives are purely reputational.

Individualized pay incentives also run counter to the logic of a systems approach to organizations. According to this view, a well-run school or company will have a much narrower range of performance among its employees than will a poorly run organization. That is because the hiring and management processes in a well-run school will attract and foster—via teamwork and training—high-caliber teachers. Conversely, poor management—and poor hiring and training processes—will produce less consistency among teachers. But throwing money at teachers in low-performing schools will not fix a broken system. Moreover, argued W. Edwards Deming, a leading proponent of systems thinking, merit pay "nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalry and politics."

Ironically, outside the compensation arena, the systems approach is gathering followers. Teachers, classrooms, and schools are being viewed, less and less, as self-contained entities, but rather as interlinked actors. Professional development is seen as a systemwide endeavor, with teachers learning from each other and from outside experts. As digital technology plays an ever-greater role in school curricula and infrastructure, it creates unprecedented opportunities for sharing lesson plans and expertise, and for linking kids and teachers to each other and to outside experts.

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Systems thinkers know that it is the employees closest to a process—in a nuclear-power plant, the maintenance worker who knows that trace amounts of rust can be a harbinger of systemic failure; in the classroom, a teacher who knows from experience the texts that resonate with students and those that don't—who are best able to spot problems early and to identify possible solutions. But capturing that local knowledge is a big management challenge. It requires employees who are unafraid to identify problems and who have been trained to problem-solve and to translate their knowledge and experience to useful organizational purposes.

Good teachers and principals know this. At Global Tech Prep in Harlem, which is part of New York City's innovation zone, one of the star teachers is David Baiz, age 27, who was rated unsatisfactory at his previous job at a troubled South Bronx school. A little mentoring by a veteran colleague who brought him to Global Tech helped Baiz reach his potential. Today, visitors flock to see his math classes. Baiz also has won Global Tech thousands of dollars in grants.

Under the rigid evaluation and incentive schemes now being instituted at tough-minded school districts, Baiz would probably never have survived, because the principal who rated him "unsatisfactory" had neither the insight nor the inclination to mentor him. At Global Tech, a collaborative culture fostered by the principal and the assistant-principal-in-training—Baiz's former colleague—made all the difference, not pay incentives.

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