C E Center for Effective Organizations

Compiled Opinion Editorials
(7 Articles)

CEO Publication
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Edward E. Lawler III
Center for Effective Organizations

Warren Bennis
University of Southern California

May 1994

Center for Effective Organizations - School of Business Administration
University of Southern California - Los Angeles, CA 90089-1421 (213)740-9814

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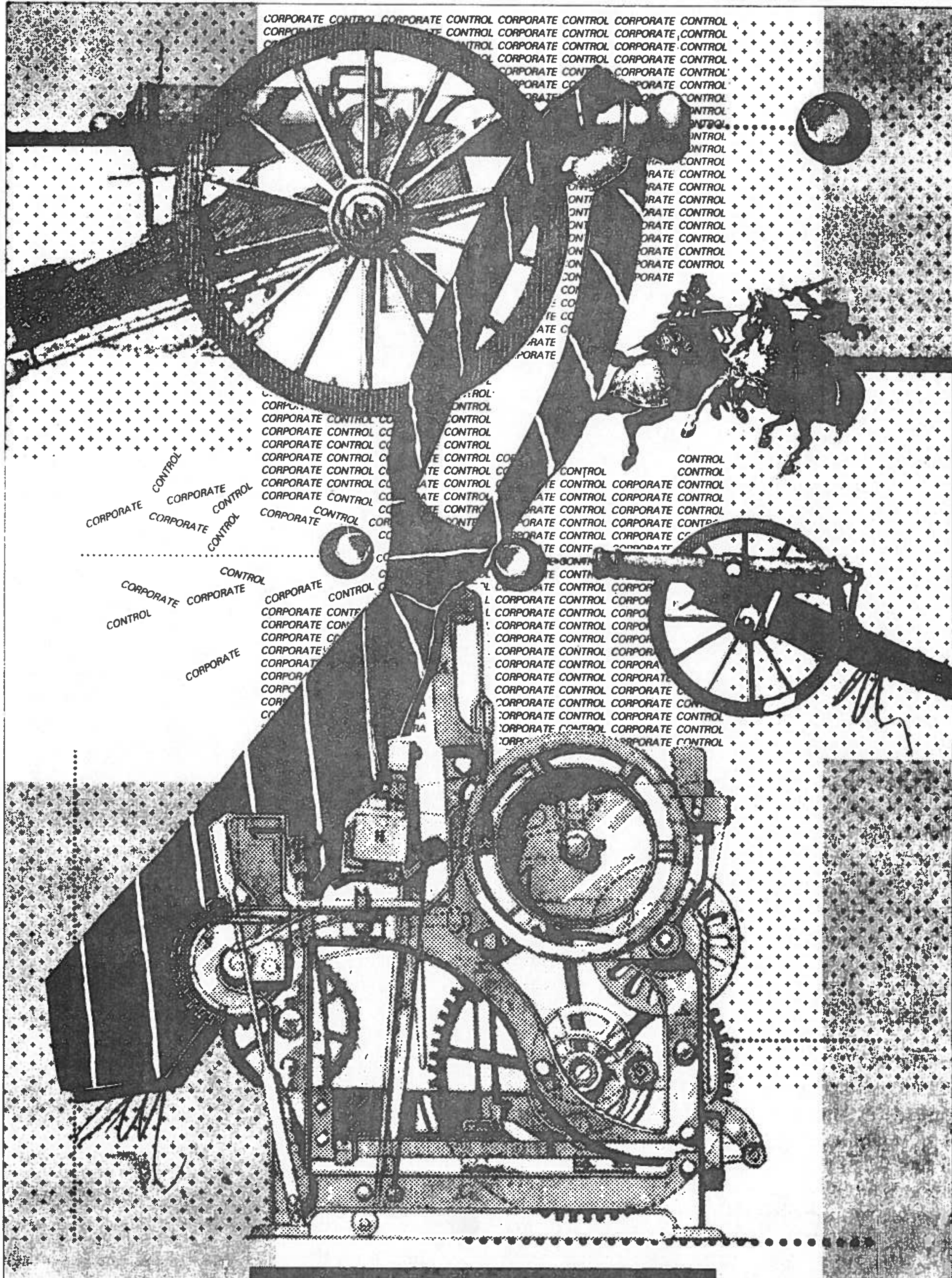
VIEWPOINTS

Donald Regan Flap Contains Lessons for Business Management



JAMES OWENS / Los Angeles Times

Tensions in the Top Level of Companies

By WARREN BENNIS

In the beginning, organizations were exceedingly simple. There were chiefs and tribes, or kings and subjects, or owners and tenants, or bosses and workers.

With the advent of the Industrial Revolution, it got more complicated. There were stockholders, boards of directors, officers and employees.

Now it's too complicated—with stake holders and/or shareholders, chairmen of the boards and/or chief executives, corporate presidents and/or chief operating officers, assorted vice presidents, managers and employees. Naturally, the modern organization—

Contemporary corporate structure is, at best, a jerry-built rig that emerged out of perceived need and chance, rather than choice.

being complicated, even Byzantine—is much more subject to trouble, or even breakdowns, than its predecessors.

As a rule, such organizational breakdowns occur in the privacy of corporate executive suites, but the whole world got to see a classic example of structural failure during the recent White House power struggle, which reached a climax with President Reagan firing his chief of staff, Donald T. Regan.

The President was criticized for his "managerial style," but actually problems resided in his managerial mode. Reagan and Regan learned the hard way that there are more weaknesses than strengths in the two-track CEO-COO mode.

Given its political bias, the Reagan Administration's choice of a corporate structure over a bureaucratic chain of command was reasonable, as was the appointment of Regan, a top business executive, as chief of staff.

But Regan's view of his role was anything but reasonable, and the basis for the subsequent firestorm.

Though Chief of Staff Regan was the White House equivalent of a COO (chief operating officer) serving CEO (chief executive officer) Reagan, from the outset he behaved like a CEO, usurping both the President's authority and prerogatives.

COOs are secondary, not primary spokespersons, yet Regan issued frequent off-the-cuff pronouncements, which were often at odds with his boss' policies and pronouncements.

Furthermore, COO Regan isolated CEO Reagan from both his staff and his constituents, which resulted in the CEO seeing the world more and more through his COO's lens.

Finally, of course, the flaws in the two men's relationship magnified the flaws inherent in the structure and brought it all down, and Regan, the quintessential corporate boss, was replaced by Howard H. Baker Jr., the quintessential bureaucratic team player.

As something like order re-

No one makes it into the upper reaches of the corporate world without a very healthy ego and very strong opinions about everything.

turned to the White House, Iran and "Contragate" notwithstanding, there must have been sympathetic sighs and nods in corporate headquarters all over America, because no one knows how flawed and how basically unworkable the CEO/COO power split is better than the CEOs and COOs themselves.

Contemporary corporate structure is, at best, a jerry-built rig that emerged out of perceived need and chance, rather than choice. Like every fragile, sensitive machine, it's only as good as its parts.

The principal parts of the corporate machine are people, and people come to the job at hand with all their own sensitivities, fragilities and needs. And the higher a person rises in the corporate hierarchy, the more exposed his strengths and weaknesses are, and nowhere are these strengths and weaknesses more exposed and more tested than in the relationship between a CEO and his COO.

On paper, the differences between the two jobs are very clear. The CEO is the leader, the COO the manager.

The CEO is charged with doing the right thing, the COO with doing things right. The CEO takes the long view, the COO the short view. The CEO concentrates on the what and why, while the COO focuses on how. The CEO has the vision, the COO hands-on control. The CEO thinks in terms of innovation, development, the future, while the COO is busy with administration, maintenance, the present. The CEO sets the tone and direction, both inside and outside the company, while the COO sets the pace.

Ironically, as with Reagan and Regan, even when the CEO and COO function happily together, they can run into big trouble, as mutual admiration is not necessarily relevant, much less productive.

But when they're unhappy together, their unhappiness is reflected throughout the organization in major and minor ways, which leads to trouble, too.

No one makes it into the upper reaches of the corporate world without a very healthy ego and very strong opinions about everything.

Given this, even the most serene CEO (which may be an oxymoron) is bound to occasionally envy his COO's hands-on control, while the COO must long sometimes to think ahead, dream, innovate.

The logic here is that two heads are better than one, but I don't know any top executive who, in his heart of hearts, doesn't think that his head is better than all other heads put together.

In addition to these fundamental problems, there are other traps in the structure. What the CEO imagines, the COO makes manifest—often in ways that seem wrong to the CEO.

Then, too, the COO seems the natural heir to the CEO, and if there were any real sense in this structure, he would be. But COO skills, which are primarily managerial, are not necessarily useful in the CEO slot, which requires leader's talents, so a superb manager can move into the leader's chair and find himself back at square one, scrambling to learn a whole new game, and often striking out.

If the COO opposes his CEO, no matter how valid his position, one time or 20 times, he may jeopardize his ultimate ascension. This may serve to intimidate or inhibit him, making him both a less effective COO and a less likely CEO candidate.

The structure is so susceptible to problems and breakdown because, at bottom, it's unworkable. However clean and clear the division of responsibilities looks on paper, in practice these responsibilities are indivisible, inextricably interwoven.

The solution is as simple as the structure is complex. The key responsibilities of both the CEO and COO should be combined and given to a CEO-in-Chief, who would reside in the center of a kind of constellation of executives.

These assistants would possess all the requisite skills and talents, and some would be likely future CEOs. The CEO-in-Chief would be limited to a seven-year term—to ensure against burnout, complacency or any of the other afflictions CEOs are now heir to.

With a little less structure and a little more leadership, American business might finally recover some of its verve, energy and spunk.

__Warren Bennis__ is a professor of business administration at USC and was a co-author of "Leaders," published by Harper & Row in 1985

VIEWPOINTS

The Wrong Approach by Mr. Wright

By WARREN BENNIS

When General Electric took over RCA last year, it was like one whale swallowing another. GE has had an impressive several years, but RCA has not only had an equally impressive run lately, it is, thanks to its highly visible broadcasting subsidiary, NBC, better-known and more influential than GE.

It was not always that way. A few years ago, NBC was a wreck of a network. But it won the 1985-86 ratings wars, easily besting the once-imperial CBS and ABC, and it is off to a stunning lead this fall.

It's taken every week, leading runner-up CBS by nearly three rating points, which translates into approximately 2.6 million TV homes and millions of dollars.

Principal Architect

On the basis of this, analysts expect the television network to enjoy a sharp increase in operating profit from the $202.5 million it earned on revenue of $2.2 billion last year.

The principal architect of NBC's amazing renaissance, Grant Tinker, left the network shortly after GE took over.

Ironically, his successor, Robert C. Wright, a longtime GE hand, seems determined to pluck the peacock.

Recently, he asked each network division to come up with a plan to reduce its budget 5%. That's standard operating procedure for GE, whose CEO, John F. Welch Jr., is called Neutron Jack because when he finishes streamlining a company, the buildings remain, but the people are gone.

Revenue Is Down

Unfortunately, what's standard operating procedure for GE may turn out to be fatal to the peacock, and the differences between GE-style management and Tinker's leadership make up almost a casebook study on the distinctions between timid management and bold entrepreneurship.

In the past couple of years, the networks have lost viewers to more aggressive independent TV stations, cable TV and videocassette recorders, so ad revenue is down.

If revenue doesn't grow and moderate inflation continues, along with such built-in cost increases as contractually binding pay raises, the network's profits will begin to decline. Or so Wright believes.

He recently told the New York Times: "From my standpoint, we have no choice whatsoever but to look at the same future ABC and CBS are looking at.

"In the next 18 to 24 months, without advertising growth and only moderate inflation, we will not be able to do any better than we've done. Our organization has to understand that in order to have a successful business in five years."

Wrong, Mr. Wright. First, it was Tinker's willingness to see a different future than CBS and ABC did that led to NBC's renaissance and the decline of ABC and CBS.

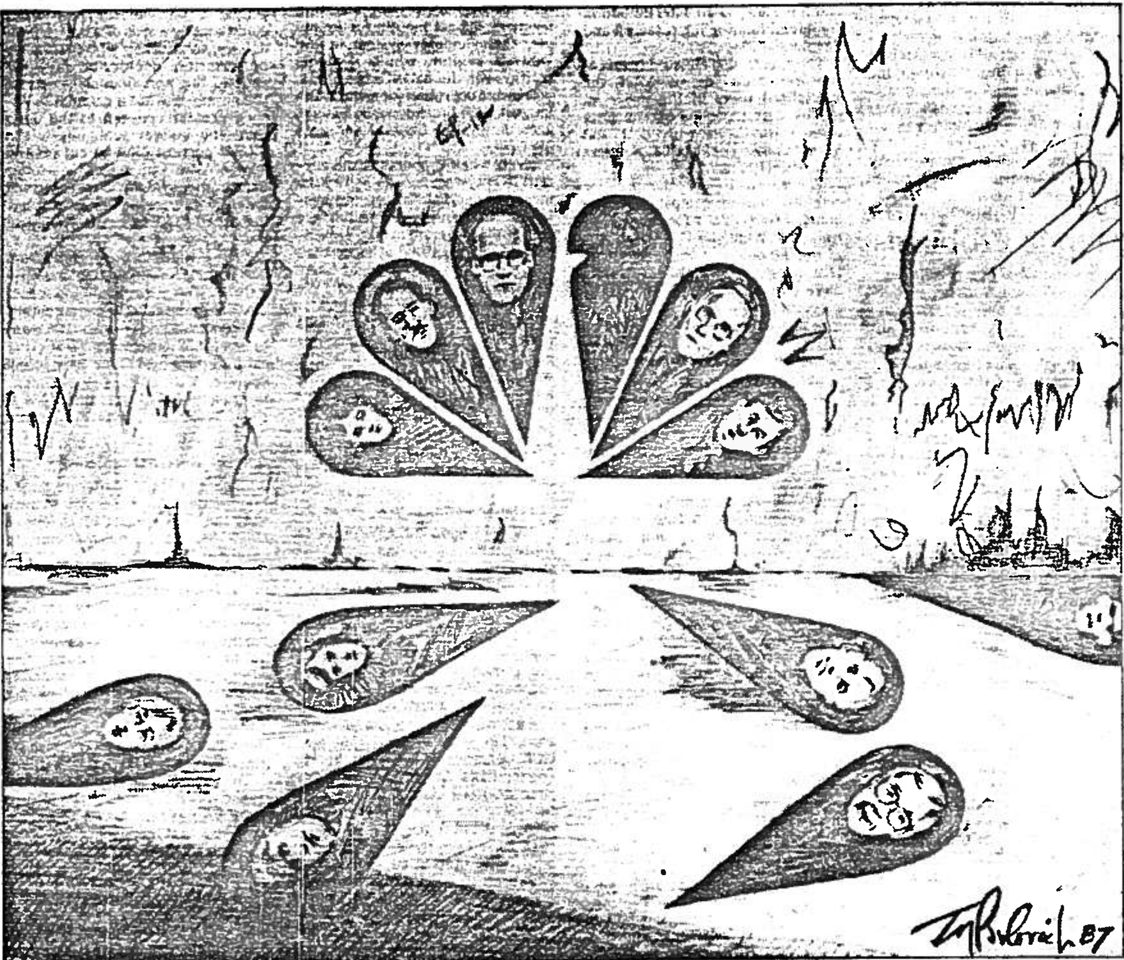
Second, a successful network, like any other business, is only as successful as its product. A TV network's product is programs, and at NBC, according to one executive, fewer than 50 of the 2,000 West Coast employees are directly involved in creating and developing programs. In this light, an across-the-board reduction of 5% seems not merely foolish, but blind.

Faced with disastrous ratings and pitiful revenues when he took over, Tinker became the very model of an entrepreneur.

First, he understood that the principal capital now is human capital and encouraged the most creative people in the business to come to NBC with their ideas.

Second, he understood that the key to generating new wealth is innovation and he brought us a new kind of TV—a cop show without car chases, another cop show in which style and music are as vital as guns and bad guys, and comedies about an alcoholic bartender and four over-the-hill ladies.

DOING DAMAGE AT NBC


MARK PAVLOVICH / for The Times

Entrepreneurs, like Tinker,... know that human capital is the only capital that really counts now.

"Hill Street Blues," "Miami Vice," "Cheers" and "Golden Girls" are contemporary TV—beautifully crafted, sophisticated, innovative and sometimes controversial.

None of these TV standards was an instant success, but Tinker stuck by them, in the best entrepreneurial fashion. He didn't follow the audience, he led it and remade it, along with television.

Terrific Ratings

Faced with terrific ratings and soaring revenue when he took over, Wright is the very model of a dutiful manager, never looking beyond the bottom line, more concerned with cutting costs than improving the product and, above all, ranking careful management over creative entrepreneurship.

On the job only since September, Wright has already opted for the reflexive managerial approach, rather than the daring entrepreneurial approach, and thus would return the leader into a follower. CBS and ABC are cutting back, so NBC must cut back too. Instead of managing NBC's money, Wright should be encouraging its talented programmers.

Entrepreneurs, like Tinker who came to NBC not coincidentally from his own small, innovative and highly successful production company, know that human capital is the only capital that really counts now.

Managers like Wright, who've spent their corporate lives watching the bottom line, still haven't gotten the message.

Until the Tinkers outnumber the Wrights, American business is destined to continue to lag, in vital ways, in the volatile world market.

Warren Bennis is a professor of business administration at the USC and is a co-author of "Leaders," published by Harper & Row in 1985.

Profit-Sharing Plans Lack Key Motivation

By EDWARD E. LAWLER III

Profit sharing is in vogue. General Motors, Ford and Pacific Telesis recently have negotiated profit-sharing plans with their unions.

So have many other major firms. They have acted because, when successful, profit sharing is a good employee motivator.

By linking compensation to a company's performance, profit sharing can encourage workers to find ways to help their firms. And with profit sharing, a company's labor costs dovetail with its ability to pay.

But profit sharing is certainly no quick fix for corporate ills. On its own, it's unlikely to improve a company's performance or satisfy employee desires for a good work environment.

Edward E. Lawler III is the director of the Center for Effective Organizations at USC's Graduate School of Business Administration.

For example, some large organizations such as Kodak have had poor results with year-end profit-sharing plans, which tend to be less effective than monthly programs, particularly ones that are based on an individual plant's or department's performance.

The problem is that many employees don't see how they can influence profitability. Indeed, many don't even understand how corporate profitability is calculated. In such cases, the opportunity to get bonuses that are based on profitability doesn't motivate.

To make profit sharing work, employee involvement and education are essential.

Not only do employees need to be educated in the economics of their businesses so that they can understand how profits are measured and achieved, they also need to learn how their own organization works.

Courses Offered

At some companies—Herman Miller, a Michigan-based furniture maker, for instance—regular meetings are held and courses are offered.

Offering knowledge-based or skill-based pay also helps inspire workers to become more familiar with their organizations.

Under such a pay system, people are paid according to the number of the jobs they can do, and everyone is required to learn various kinds of work.

Training is available, and employees are encouraged to rotate positions. Thus, employees get a better understanding of their organization, and their commitment to improving performance increases. Proctor & Gamble has installed this type of pay system successfully in more than 25 plants.

Sharing decision-making power is critical for profit-sharing programs because without any authority, employees cannot influence profits.

Teams, problem-solving groups and programs that push decision-making downward must accompany profit sharing to stimulate better performance.

Motorola clearly has recognized this and always makes worker participation a part of its program, which links bonuses to the financial performance of departments and plants.

A guarantee of stable employment also can be crucial. If employees fear that they'll lose their jobs if companywide performance improves, they naturally won't be motivated to improve performance.

Employees at least need to be guaranteed that they will not be laid off because of increased efficiency resulting from their efforts.

Last Approach

If possible, it also helps to be able to assure employees that layoffs are one of the last approaches the organization will use to reduce costs during hard times.

With an employment guarantee, employees see a fair trade-off: stable employment in exchange for the fluctuating compensation inherent in profit sharing.

It is important to recognize that profit sharing can disrupt people's lives through income fluctuations.

Employees may not know how to budget and manage their expenses when they have a variable income.

Although profit sharing is not as disruptive as the layoffs that many companies use to cut costs, personal financial counseling and other steps should be taken to help employees cope.

Years ago, Kaiser Steel failed to do this when it introduced a profit-sharing plan; the result was considerable hardship when profits dropped. People had foolishly made financial commitments they could not keep.

Flexible benefits are a nice complement to profit sharing. They allow employees to adjust the mix of cash and benefits they receive to fit their needs.

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Continued from Page 3

Employees are given an amount of money that they can spend on any combination of cash and the usual array of company benefits.

For example, companies such as TRW give employees some choice in selecting health insurance and retirement plans, among other benefits.

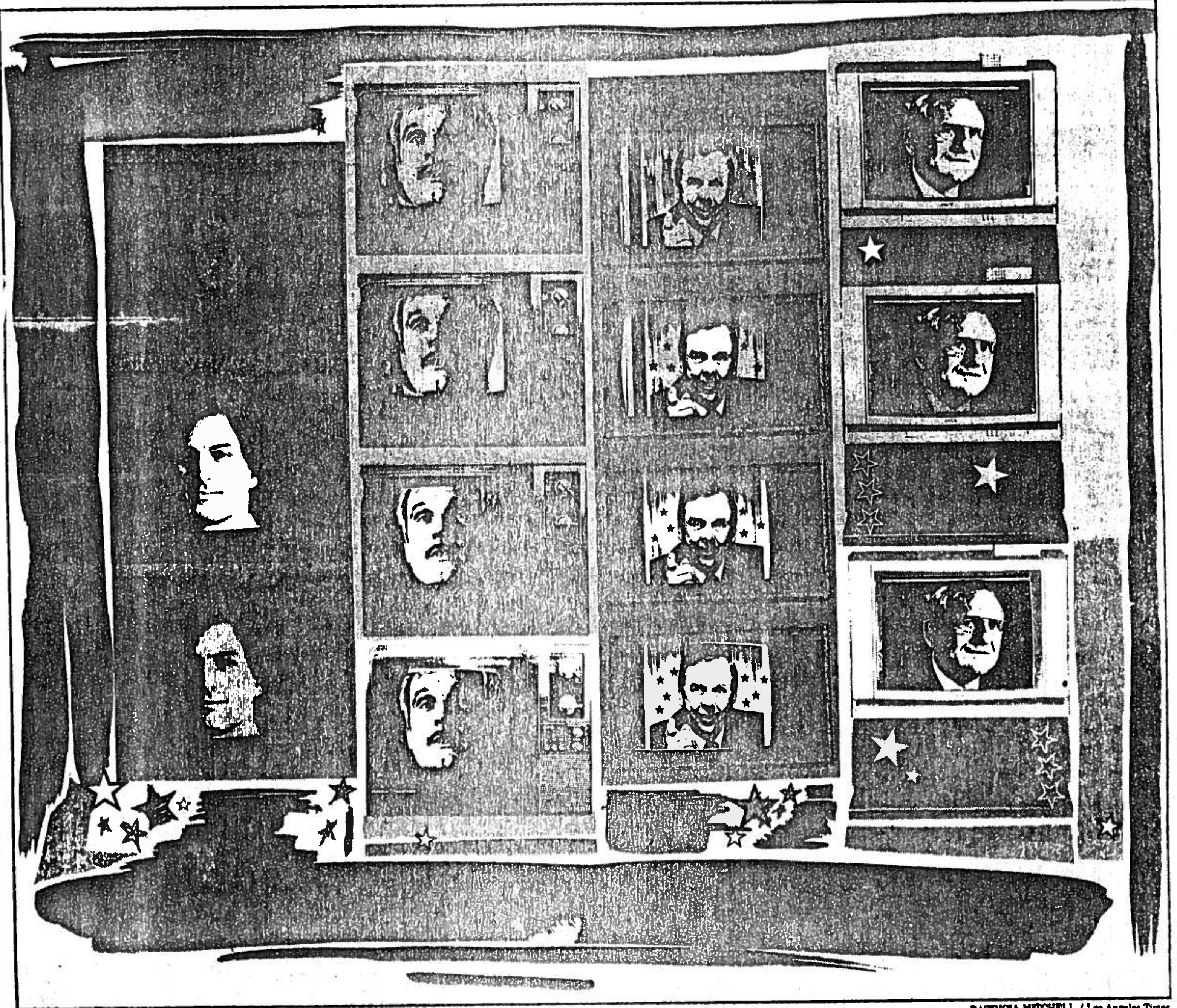
With variable income, people's needs obviously are going to change, and it makes sense to let them adjust their pay and benefits package.

So far, few companies have combined flexible benefits and profit sharing, but flexible benefit plans are increasingly popular because of their many advantages.

Profit sharing can help American companies and their employees—but only if organizations take some important extra steps. Some basic practices have to change.

Los Angeles Times
BUSINESS
Sunday, October 19, 1986

VIEWPOINTS



PATRICIA MITCHELL / Los Angeles Times

The Problem With Today's Executive Heroes

By WARREN BENNIS

It's almost impossible to pick up a book, watch television news or leaf through People magazine without getting one more glimpse of America's top executives as celebrities. Even "Miami Vice" recently featured Lee A. Iacocca in a cameo role.

The captains of industry are back. Not in the scoundrel roles that society assigned them as recently as the 1970s, but as folk heroes. While this seems good news for the business community, our enthusiasm should be tempered. The sheer volume of uncritical adulation is troubling.

Magazines, audio and videocassettes, brochures and books extolling the virtues of corporate leadership proliferate. A recent issue of Psychology Today, for instance, reviews five books and notes that "all portray the corporate leader as teacher, mentor, exemplar and forger of values and meaning."

Warren Bennis is a professor of business administration at USC's School of Business Administration.

Recent books include "The Great Getty"; "Geneen"; Tom Peters' latest offering, "Passion for Excellence, the Leadership Difference"; "Making it Happen" (about 1984 Olympics chief Peter Ueberroth); "CEO: Corporate Leadership in Action"; "The Power to Lead" and "The Big Time" (about the extraordinarily successful Harvard Business School class of 1949).

High-level executives are getting the full celebrity treatment. In fact, my two teen-age sons, neither of whom is a business major, recognize the names Iacocca, T. Boone Pickens Jr., Ted Turner, Armand Hammer, Steven P. Jobs, Harold Geneen, Victor Kiam, Frank Borman and Sandy Sigoloff as readily as they recognize those of rock stars.

What a contrast between today's adulation for captains of industry and the universal hatred for their 19th-Century counterparts, the so-called Robber Barons. Jay Gould was known as one of the worst stinkers in American business, and many other corporate leaders of the time suffered similar opprobrium.

Why has the contemporary corporate leader re-emerged as an authentic American hero?

A case can be made that rapid advances in technology, widespread deregulation, economic upheaval and social change have vastly complicated the chief executive's role, while simultaneously raising the stakes of his decisions and heightening his visibility. A contradictory explanation is that the current business climate is the most favorable in years and thus permits corporate stars to shine especially brightly. A third, discouraging, explanation is that selfishness is suddenly respectable; in a nation full of yuppies bent on acquiring status symbols, nothing may be held in greater esteem than a position at the top rung of the corporate ladder. A fourth, quite human, explanation is that in this volatile world, a strong business executive is a far more reliable hero than, say, a rock star.

A different explanation is rooted in history. By cultural tradition, American society glorifies the individual. The chief exponent of this tradition was Ralph Waldo Emerson, who guided a movement that emphasized humanism and the spiritual self. Upon leaving the Unitarian Church, in which he was an ordained minister, he made individualism his religion. While Emerson meant to give people courage to follow their own instincts, he unwittingly created a platform for American enterprise and a philosophical basis for corporate tycoons. To this day—especially today—we're drawn to powerful individuals. And there are no individuals among us more powerful than the captains of industry.

What's so bad about feeling good about these corporate superstars? Plenty.

Cults develop around such chieftains. Idolatry spawns lackeys, not leaders. Everybody begins to think the way their leader thinks. Problems of succession develop. Corporate superstars eclipse not only the competition, but their own subordinates. When they move on, their companies suffer from months or years of instability while searching for someone to fill their outsized shoes. CBS, for example, has been in such turmoil since the 1983 departure of Chairman William S. Paley that it recently was forced to bring him back.

Idolatry tends to go to a chief executive's head. Top officers sometimes behave like mini-emperors, inclined to get rid of those who dissent or have better ideas. They have imperial habits and tastes that can cost the company dearly. The T. Boone Pickenses and Carl C. Icahns are building their individual power bases at the expense of the entire corporate community and, ultimately, the American public.

Then there is the Oz factor. Far too often, the most imperious corporate stars are empty suits, all sound and fury, signifying nothing. High visibility has nothing to do with getting the job done. Eastern Airlines hired Frank Borman because he was an astronaut, a genuine celebrity, and seemed an ideal spokesman. He's out now because Eastern needed action more than talk. The no-name executive team at Ford consistently outclasses the stars at Chrysler and GM.

Ironically, the problem contains its own solution. Currently, the burnout rate for these corporate superstars is very high. A recent study showed that a turnover of chief executives in large companies occurs, on average, every seven years. Robert Townsend, who made Avis try harder, has said that the average life of a corporate star is more like three to five years. Obviously, stardom is healthy neither for the executives nor the companies. And so the day may not be far off when corporations stop being one-man shows and become team efforts again.

VALLEY BUSINESS
April 7, 1986
Daily News

Perspectives

Managers must share power with employees

All levels must make decisions, reap rewards

In Perspectives, a Los Angeles business leader discusses an issue of public concern. This week's columnist is Edward Lawler, a professor at the USC School of Business Administration and director of USC's Center for Effective Organization. His most recent book is "High-Involvement Management" (Jossey-Bass Publishers).

By EDWARD LAWLER

If American companies hope to meet the challenge of international competition, they must be managed more democratically.

The old style of management — in which decision-making power and financial rewards are concentrated at the top — is clearly failing. Today's workers are unhappy with organizational structures that separate thinking from doing, that deny them autonomy and self-esteem. And their dissatisfaction exacts a heavy toll on corporate performance.

It may seem a radical move to abandon the traditional management style born with the assembly line in favor of one better-suited to modern production technologies and workers. But the potential gains of allowing workers to participate in how their jobs are done and how their company is run are worth the risks.

If participative management can create organizations in which people at all levels think for themselves and manage their own work, then far fewer employees will be needed. Those who remain will have more rewarding and satisfying jobs. This in turn could help make the higher labor costs in the United States competitive because lower-level employees would be contributing more by using both their hands and their heads. If people care more about their work, product quality also will increase.

EDWARD LAWLER
USC business professor

In recent years, many American firms have tried to encourage employee participation through such strategies as quality circles, job enrichment programs, work teams, gain sharing and new-design plants. But none of these approaches, by itself, goes far enough.

In order to induce employees to know more, do more and care more, companies need to make comprehensive changes that involve employees both financially and psychologically.

More than 25 years of research on effective organizations suggest that some of the key changes should be:

- Flatten the organizational structure by trimming any fat in staffing and lopping three or four rungs off the management ladder. The object is to decentralize authority and empower workers at every level. There are only so many decisions to be made, and if a company is top-heavy, there won't be enough decisions to go around.
- Change the financial reward system to pay employees for their knowledge and skills, not for the type of job they hold. In this kind of skill-based pay system, a highly skilled production team member should be able to make more than a manager, simply because the production worker knows more. Further, the company should adopt some form of gain sharing, providing all employees with the incentive of having their personal economic fates tied to the success of the organization.
- Make surroundings egalitarian to reinforce the classless structure of the company, and to impress upon people that decisions and rewards are based on expertise, not hierarchy. Status symbols such as reserved parking spaces, executive dining rooms and expensively appointed offices are unacceptable. Even the normal business dress code, in which people of different levels of power wear different clothes, is not appropriate in a high-involvement organization.

These kinds of changes are not popular with senior managers who feel they have a lot to lose. Many executives complain that they're being asked to give up control and power — with no solid proof that the new system will work any better than the old one.

But most significant changes occur as much from frustration with the old ways as from evidence that the new way is better. And frustration with the old approach to management is growing. The human costs, as well as the economic ones, are great.

With high-involvement management, we not only have the chance to make American companies competitive again, but we also have the opportunity to bring the reality of how people are treated in our work places into line with our ideal of how they should be treated in a democratic society: with respect, dignity and the right to share in the fruits of their labors.

Merit Pay Not Best Idea

By EDWARD E. LAWLER III

Merit pay is back in favor. Bank of America, General Motors, Ford, and a host of other large corporations are either installing new merit pay plans or trying to revive their old ones. They seem to have forgotten or ignored that merit pay has been tried and found wanting time and time again. They also seem to be oblivious to the research which shows that there are better alternatives.

In many ways, merit pay seems to be the proverbial cat with nine lives. It is tried, found lacking, and forgotten — only to be reborn at a later date. In many respects, this is not surprising. The idea of paying individuals for their performance is basically attractive and is consistent with American values which argue that individuals should be rewarded according to their contributions.

Because of its expected impact on employee motivation, merit pay also seems to promise better organizational performance. Thus, it appears particularly alluring today when most large corporations are under pressure to improve their performance.

There are several different kinds of problems with giving merit pay increases to individuals. First, in a low-inflation environment, it is difficult to create very substantial pay differences between good performers and poor performers. When the budget for pay increases is only 5 percent or 6 percent, how much differentiation is possible?

In addition, since merit increases become part of base pay, most of an individual's pay ends up reflecting historical, rather than current, performance. For this reason, study after study by myself and others has found little relationship between current pay and current performance.

Overall, merit salary increases simply are not a good delivery vehicle for money that is intended to reward performance. Much more effective are individual bonuses given each year based on current performance. With these, it is possible to deliver significantly different amounts of money to individuals based on their performance.

However, there are other major problems with merit pay that giving bonuses cannot eliminate. They depend on a subjective appraisal of who is an effective performer. There are a few corporations, such as IBM, who do an effective job of training managers to appraise individual performance. Most, however, do an extremely poor job. As a result, at best, pay increases and bonuses are based upon hastily done assessments of performance and, at worst, are based upon biased, ill-informed judgments by untrained supervisors.

Because of their structure, merit pay plans can create destructive competition within organizations. A given amount of money is typically allocated for meritorious performance and this is divided up among the employees. Individuals know that in order to get the top bonus or raise, they have to outperform their coworkers. A competitive spirit is not necessarily negative, especially in circumstances where individual performance is what counts, such as sales situations. However, it can be tremendously destructive in organizational situations that require cooperation and teamwork — a condition that is increasingly common.

There is an effective alternative to individual merit pay. It requires corporations to abandon the idea of focusing on the performance of individuals. This is hard for many organizations to give up because of the strong value system in the United States regarding individual performance. Nevertheless, the ineffectiveness of individual plans and the movement in our society toward more complex and team-based organizations strongly argue for group and organization-wide rewards.

There are already a number of good examples of what can be done with bonuses based on group effort. Motorola, Dana Corp., TRW and a host of other organizations have successfully used team-based rewards to create organizations that are effective in highly competitive global markets.

Perhaps the most interesting example of team- and organization-based rewards is People Express Airlines. Every employee is an owner of the organization, participates substantially in a profit-sharing plan, and is also a member of a bonus plan that pays for group performance. In short, the individual employee has three kinds of pay for performance, but none of them are based upon individual performance. This is a model which should be much more widely applied by American businesses. It is not for every organization, but for those that want to pay for performance and operate in a cooperative interdependent way, it should prove to be much more effective than individual pay for performance approaches.

TULSA WORLD--March 2, 1986

Los Angeles Times
Sunday, March 2, 1986

Scrap Merit Pay, Focus on Team Performance

By EDWARD E. LAWLER III

Merit pay is back in favor. Bank of America, General Motors, Ford, and a host of other large corporations are either installing new merit pay plans or trying to revive their old ones.

They seem to have forgotten or ignored that merit pay has been tried and found wanting time and time again.

They also seem to be oblivious to the research which shows that there are better alternatives.

Edward E. Lawler III is director of the Center for Effective Organizations in the University of Southern California's Graduate School of Business Administration.

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Extremely Poor Job

Most, however, do an extremely poor job. As a result, at best, pay increases and bonuses are based upon hastily done assessments of performance and, at worst, are based upon biased, ill-informed judgments by untrained supervisors.

Because of their structure, merit pay plans can create destructive competition within organizations.

A given amount of money is typically allocated for meritorious performance and this is divided up among the employees.

Individuals know that in order to get the top bonus or raise, they have to outperform their co-workers.

A competitive spirit is not neces-

Please see TEAM, Page 8

TEAM: Change Focus on Bonuses

Continued from Page 3

sarily negative, especially in circumstances where individual performance is what counts, such as sales situations.

However, it can be tremendously destructive in organizational situations that require cooperation and teamwork—a condition that is increasingly common.

There is an effective alternative to individual merit pay. It requires corporations to abandon the idea of focusing on the performance of individuals.

This is hard for many organizations to give up because of the strong value system in the United States regarding individual performance.

Nevertheless, the ineffectiveness of individual plans and the movement in our society toward more complex and team-based organizations strongly argue for group and organization-wide rewards.

There are already a number of good examples of what can be done with bonuses based on group effort.

Motorola, Dana Corp., TRW and a host of other organizations have successfully used team-based rewards to create organizations that are effective in highly competitive global markets.

Perhaps the most interesting example of team- and organization-based rewards is People Express Airlines.

Every employee is an owner of the organization, participates substantially in a profit-sharing plan, and is also a member of a bonus plan that pays for group performance.

In short, the individual employee has three kinds of pay for performance, but none of them are based upon individual performance.

This is a model which should be much more widely applied by American businesses.

It is not for every organization, but for those that want to pay for performance and operate in a cooperative interdependent way, it should prove to be much more effective than individual pay for performance approaches.