Paper # 02-064

Promise and Peril in Implementing Pay for Performance: A Report on Thirteen Natural Experiments

Michael Beer
Mark D. Cannon

Michael Beer
Harvard Business School
Harvard University
Boston, MA 02163

Mark D. Cannon
Peabody College of Education
Vanderbilt University
Box 514, GPC
Nashville, TN 37203

(This paper is currently under review)

Running Head: PROMISE AND PERIL

Promise and Peril in Implementing Pay for Performance:

A Report on Thirteen Natural Experiments

MICHAEL BEER

Harvard Business School

Harvard University

Boston, MA 02163

(617) 495-6655

Fax: (413) 383-0002

Email: mbeer@hbs.edu

MARK D. CANNON

Peabody College of Education

Vanderbilt University

Box 514, GPC

Nashville, TN 37203

(615) 354-8768

Fax: (615) 353-8411

Email: mark.d.cannon@vanderbilt.edu

Promise and Peril in Implementing Pay for Performance:

A Report on Thirteen Natural Experiments

Abstract

Despite the popularity of pay for performance programs, very little research has examined the dynamics and dilemmas associated with implementing these programs. We studied the implementation of thirteen experiments in pay for performance that were initiated by local management in a high-commitment company (Hewlett Packard). We examined Hewlett Packard documents and interviewed managers to understand their experience with implementing these programs. Managers reported a relatively unfavorable cost-benefit assessment of programs and difficulty in designing and maintaining them, especially in a fast changing business environment. Managers at each site eventually concluded that they could attain greater performance benefits through alternative managerial tools like effective leadership, clear objectives, coaching or training, and therefore discontinued their pay for performance programs. Finally, we discuss implications for management and for future research.

Immense pressure for higher performance has led corporations to search continually for managerial practices that will enhance competitiveness. An increasingly large number of corporations have explored how rewards, particularly money, could be linked to desired behavior and/or performance outcomes to improve effectiveness (Beer & Katz, 1998). This has led to widespread and growing development of pay for performance plans (Schuster & Zingheim, 1992). For example, a survey of 1,681 companies indicated that 61 percent had implemented variable compensation systems (Hein, 1996). Likewise, another survey reported that over 80 percent of compensation administrators reported that their companies embraced a performance-based compensation philosophy (Peck, 1984).

The popularity of such programs, however, does not suggest that either scholars or managers are in agreement as to their efficacy or desirability. One area of debate has focused on the nature of human beings and what motivates them. Proponents of pay for performance assert that people respond constructively to financial rewards. They argue that traditional compensation systems can be detrimental to efforts to make an organization less hierarchical and more competitive, focused, adaptable and collaborative (Baker, 1993). For example, traditional pay systems may experience the following problems: pay becomes an entitlement, benefits are given for tenure, base pay is a function of levels and not performance, merit increases do not differentiate performance sufficiently, and even executive bonuses become an entitlement.

Other scholars hold a significantly different point of view (Pfeffer, 1998). For example, Luthans and Stajkovic (1999) challenge the premises of pay for performance programs. Others argue that pay for performance systems can have a destructive effect on intrinsic motivation, self-esteem, teamwork, and creativity (Kohn, 1993; Amabile, 1988; Deci & Ryan, 1985; Meyer, 1975). Furthermore, other scholars have argued that the real problem is that incentives work too well. Specifically, they motivate employees to focus excessively on doing what they need to do to gain rewards, sometimes at the expense of doing other things that would help the organization.

Despite the importance of implementation to the efficacy of pay for performance plans, very little attention has been given to the dynamics and dilemmas of implementation (Gerhart & Trevor, 1996) or to how managers experience and react to these dynamics and dilemmas. Given the popularity of these programs and the lack of universal success, we argue that understanding the managerial experience of implementation is important. Furthermore, we believe that a set of particularly nettlesome problems is associated with implementation of pay for performance programs. Specifically, the following barriers complicate efforts to link pay to performance in a manner perceived as fair and equitable by management and employees alike:

Barriers to linking performance to effort:

1. Measurement of performance is very difficult, particularly when small differences exist or fine distinctions are being made.
2. Performance is affected by factors outside the control of individuals and groups being paid for that performance -- a changing environment and interdependence with other parts of the organization, for example, are some of the reasons.
3. When performance evaluation is based on judgment, managers (or peers) do not like to differentiate between employees, fearing damaged relations and de-motivation. When it is not, incentives systems narrow perspective and reduce commitment to the total enterprise.

<u>Barriers to establishing the link between pay and performance:</u>

1. Employees come to rely on the additional compensation that comes from pay for performance systems but perceive the system as unfair when it stops paying off.
2. Employees compare their pay to others in making judgments about fairness of pay. Different practices and/or circumstances in other parts of a larger organization cause perceptions of inequity and reduce the perceived link management intends.
3. Corporate budgets for bonuses often limit payout. Therefore, payout amounts may not be seen as consistent with performance outcomes obtained.
4. A corollary of the above: when contingent pay systems pay out more than management expected, they lose commitment to the pay system, limit payouts or discontinue the system.
5. Changes in performance standards due to changing technology, unanticipated learning curves, and changing circumstances cause perceptions of inequity and reduce the perceived link between pay and performance.

Given these barriers, we would predict that implementation of pay for performance programs will present a significant set of challenges. Furthermore, because people tend to be overly optimistic and over confident (Taylor & Brown, 1988) we would predict that implementing pay for performance would be significantly more difficult than managers would expect. These complications suggest that we should seek to better understand the managerial perspective on implementation of pay for performance programs.

A case-writing visit to Hewlett Packard in the mid-1990s revealed an unusual opportunity to study the managerial experience of implementing pay for performance programs. In the early 1990s, local HP managers at thirteen different sites initiated "experiments" in pay for performance. Though we call these experiments for the purpose of this paper, the managers saw them as initiatives to improve their business. Hewlett Packard provided us with the opportunity to review their documents and to interview the managers who sponsored the pay programs.

This research opportunity offered several methodological advantages compared to many previous studies. Specifically, many other studies relied on only one or a very limited number of cases which makes generalizations difficult, and these studies often covered such short time frames that the long-term efficacy of the programs was difficult to assess (Luthans and Stajkovic, 1999). Interviewing local managers was also not a typical characteristic of previous studies. Finally, in order to give fair treatment to the topic of implementation of pay for performance, we would want the necessary contextual conditions for success to be in place or at least that the site did not start off with fatal flaws. Indeed, the Hewlett Packard experiments on which we report here had in place many of the conditions that should lead to success. First, they were the initiatives of local management; thus, local management had a very high level of commitment to their successful implementation. In addition, these initiatives had the approval and full support of higher management. Resources such as consultants were also made available to support these programs. Furthermore, with a reputation as a high-commitment company in which trust between management and employees is strong and in which communication is good, we would expect HP to have an advantage in implementing these programs. Lack of trust (Pearce, Stevenson & Perry, 1985) and poor communication (Hammer, 1975) have been cited as the cause for the failure of other programs.

Finally, local managers had significant autonomy and the freedom to continue the experiment or discontinue pay for performance programs, depending on how they assessed the costs and benefits. They were not constrained or pressured by outside forces to do either. Therefore, we were able to study not only the challenges that these managers would encounter in implementing the programs but also how they would respond to these challenges and eventually what they would conclude about the costs and benefits of time invested in these programs versus time invested in other managerial levers for performance.

Setting and Method

Beginning in the early 1990's, HP authorized a diverse set of 13 different alternative pay programs (Table 1). Most of these involved team and skill based pay systems; some involved gains sharing and some cash incentives or bonuses. Half the sites were outside the United States and were spread across five countries. The workers included were mostly involved in various kinds of blue-collar work at the production level, with the exception of one group of engineers. All programs were initiated at the request of local divisional management. In each instance, local management felt it needed to use pay for performance as an additional inducement either to achieve particular goals, to reinforce learning and/or team behavior in semi-autonomous teams and/or to compensate for an increase in span of control due to de-layering.

<u>The Company</u>*:* These experiments must be understood in the context of HP's corporate human resource policies and culture at the time. Initiated by its founders, numerous highly consistent and mutually reinforcing policies and practices have developed over HP's 50-year history (Beer, 1982). These include the following: decentralized business units; strong

commitment to management by objectives, participative management, and delegation of responsibility to the lowest level; extensive communication, such as open door policy and "management by walking around;" recruitment and hiring practices which screen for interpersonal skills, not only technical competencies; a career system based on internal promotion and cross-functional and divisional movement.

HP's pay systems included the following at the time of these experiments: merit pay based on ratings by supervisor (for exempt and non-exempt employees) and performance ranking of employees (exempt employees); a profit sharing system for all employees which pays out the same percent of salary, regardless of level; no executive bonus system, though total executive compensation was comparable with industry standards; stock options for employees at all levels according to contribution; incentives are used in the sales organization (team and individual).

<u>Research Method</u>: HP corporate human resource department tracked these experiments and learned that all were discontinued within approximately three years. An internal study was commissioned to understand the reasons why each was discontinued so that implications for the future could be drawn. Their methods were interviews, examination of production data and employee surveys. We reviewed HP documents. We also conducted interviews at five U.S. sites to gather additional data. Specifically, we interviewed managers to learn about their perspectives on: the nature of each experiment and what they hoped to achieve, the challenges they faced in implementing programs, their response to the challenges, their own calculus of the cost and benefits of using pay programs as an active management tool, and the reasoning behind their eventual decision as to whether to continue the program. These interviews provided us with an opportunity to deepen our understanding and to validate HP's own conclusions.

Given space limitations we provide brief descriptions and findings in five of the sites in which we conducted interviews. Our findings for these sites are illustrative of findings for the larger data set and support HP's conclusions with regard to all thirteen experiments.

Five Illustrative Case Examples

Experiment 1: San Diego Site

Description: In an effort to support a transition to self-managed teams and encourage a focus on team rather than individual performance, the San Diego site initiated Team Pay for Performance (TPP). Previously, responsibility for implementing HP's merit based pay philosophy and for managing the development of employees was given to individual managers who would divide work group objectives into individual assignments and then monitor individual contributions. Under the new self-managing teams structure, a layer of supervision had been removed and managers had wider spans of control and less manager\subordinate interaction. Teams themselves divided up the work and were managed to a set of business objectives. Consequently, managers were not as well positioned to make merit increase decisions or to manage the development of individual employees. Therefore, management put together a TPP plan to focus employees on team performance and to encourage them to manage their own development and acquire the broader set of skills that would be required by work team responsibilities.

Team Pay for Performance was established to motivate achievement of specific work team goals, such as team process improvement, production, and quality goals. The team-based pay for achieving certain goals was added incrementally to base pay. There was no "take away" for failing to meet team goals. Three levels of team performance were possible within the pay structure. Ninety percent of the teams were expected to achieve Level I performance and thus receive a pay-out. Fifty percent were expected to reach Level II performance, and 10-15% Level III performance, the highest level. For achieving Level III performance, for example, members of a particular work team would receive between $150-$200 additional pay at the end of the following month. Teams also had production coaches to assist them.

San Diego's new pay package also included a skill base pay system called pay for contribution (PFC). Instead of the typical merit system, employees would advance from a starting rate by demonstrating competence to perform additional sets of tasks within the team. The system was intended to motivate employees to learn new skills on an ongoing basis. Possession of a new skills set was measured and certified by "subject matter experts." The rationale was to create a continuously learning workforce capable of adapting to new situations.

Result*s*: During the first six months, team members liked the TPP program and significantly outperformed the performance goals set at the beginning of the experiment, with a majority of the teams reaching Level II and III. However, because the TPP program paid out more than expected, management concluded that they had set the performance standards too low and decided to adjust them. This effort met great resistance from team members who complained bitterly. They had built a lifestyle around the higher monthly pay they had come to expect, and now saw the program as taking something away. Managers also concluded that worker’s attention was now focused on their pay instead of their work.

Another drawback of pay for performance managers saw had to do with factors outside of the teams' control that affected team performance. For example, delays in shipment of parts or a mechanical breakdown in the assembly line prevented teams from building the units they needed to meet their goals for that month. This caused serious dissatisfaction with the pay system. Team members felt as though they had very little control over their performance.

Furthermore, high performing teams often refused to admit anyone to their team who they thought might be below their level of expertise. This resulted in self-reinforcing positive and negative spirals in team performance. Some teams had many top performers, while others stagnated with low performers who needed further training. Furthermore, barriers to employee mobility between teams reduced the capacity of the organization to transfer learning from one team to another, a major barrier in a dynamic environment.

Regarding the skill base pay system called pay for contribution (PFC), management reported that the majority of employees hated this system. They did not like the additional pressure of taking tests to increase their pay, some in how to read and write and do math. Because they were afraid it wouldn't leave them enough time to study and test for new work skills, employees would often refuse new job assignments. Moreover, many of the newly acquired skills were not used on the job. Furthermore, at the beginning of the program employees had to demonstrate proficiency on skills required in their current job to maintain their skill classification. If they failed, the system called for them to drop to a lower classification and pay level. Managers found it difficult to do this, however. These constituted take-aways from expected levels of pay that had been established in the minds of employees.

Local site managers concluded that a team structure together with training would have provided the same benefits as the team structure combined with team and skill based pay, but without the additional effort, money, and communications demanded by the team based pay system.

Managers also concluded that the pay system did not motivate employees to work harder or learn, though it did stimulate them to better understand relevant performance metrics, the manufacturing system as a whole, and its broader goals. This improved understanding may have been used by employees to define their own interests rather than the broader interests of the organization as a whole.

One of the largest of the San Diego site divisions dropped the pay program after about a year. Managers were tired of having to constantly re-engineer the pay system to overcome its numerous problems. Surveys indicated that employees preferred to switch back to HP's standard pay structure. When management of that division finally dropped the pay program, employees threw a party to show their gratitude.

The rest of the site eventually dropped the program, as well, due to a major manufacturing reorganization. The divisions found that team base pay made extremely difficult to maintain consistency in the pay system across the whole site.

<u>Experiment 2: Boise Printer Formatter Shop</u>

<u>Description</u>: The Boise situation was similar to the San Diego; they had introduced self-managed teams and management wanted to implement a complementary team and individual performance incentive plan. The traditional HP merit pay system was replaced with a skill based pay system. Within a skill level, pay could be increased variably depending on individual and team performance. If a team was among the highest performing teams for a particular month, it was awarded a bonus. Those who were evaluated as performing above average were allowed to pursue development and advancement to the next skill level with resultant higher pay. Because these teams were intended to be self-managing, the evaluations were to come from peers and management. Those with performance problems could not pursue new training opportunities

until their performance was corrected. This system was designed to provide additional pay, not to take any pay away when team performance lagged.

Results: The results were very much like those at San Diego. It was difficult to establish realistic performance goals. After some months teams received much more contingent pay than had been expected. Management at this site also found it very difficult to reset goals once they were established. Here, too, teams became very selective about who they wanted on their team. External factors, outside of the team's control, also affected goal accomplishment and irritated many of the employees.

Peer evaluation of individual performance, also part of the system, was difficult to implement. Team members had a very difficult time judging the work of their respective team members. Tempers flared after employees received negative feedback. Consistent with attribution theory, negative evaluations were attributed to a bad evaluation system and unobjective teammates. This, of course, led to further problems within teams.

Like San Diego, the pay program was dropped. Long-term results initially hoped for never materialized. Management came to believe that employees were too focused on pay and insufficiently focused on the task.

Experiment 3: PRCO Loveland

Description: PRCO is a printed circuit fabrication shop that was slow in reaching its targets. During one quarter, the fabrication shop was behind schedule and wanted to reach at least 95% of its target. With a month left, management offered a $250 cash bonus to all of its employees if they reached the goal.

Results: The shop didn't reach its goal and the bonus was never paid out. Managers reported that employees were not angry when the bonus did not materialize. On the positive side managers reported that the bonus did highlight their serious intention to reach production target. On the negative side, some employees felt insulted by the fact that the company tried to "bribe" them to reach a goal that they were already motivated to reach. In the final analysis, managers felt that a more effective approach would have been to work on coaching employees in how to make manufacturing process improvements.

Experiment 4: Colorado Memory Systems

Description: Colorado Memory Systems (CMS), which was acquired by HP, had not previously had a profit sharing system. Prior to being acquired, management thought they would take the company public. Employees were told that they would have a chance to share in the company's success through stock purchasing plans.

When the company was acquired by HP the stock purchase plan did not materialize. CMS management opted to institute HP's corporate profit-sharing program to engender a feeling that they were becoming a part of the larger HP organization. However, management did not feel they could afford to pay employees at HP levels. Thus, they instituted a local gain sharing program that they hoped would augment CMS's base salary and provide employees with total compensation that matched or exceeded HP's total compensation package.

The local gains sharing program was installed by management because, according to them, they believed it would increase the following desired behaviors: individual initiative and responsibility, willingness to learn, adaptiveness, teaming and collaboration, hustle, willingness to confront conflict, and focus and attentiveness. Managers believed that increasing these behaviors would translate into increased financial success for the company and help to close the "pay gap" between CMS and HP. Management planned to pay out bonuses quarterly based on attainment of certain levels of operating profit.

Results: Management reported that the program had the following positive effects: increased visibility between departments, the effective use of cross-functional teams to achieve goals, a heightened awareness of business fundamentals and financials, clearly defined and communicated quarterly objectives, and a high level of uniform company-wide focus.

However, a number of problems soon emerged. For example, many employees wanted their compensation program to be the same as other HP employees. Employees also perceived the program to be promoting short-term behavior.

In addition, the gain sharing program intended that employees be rewarded on the success of CMS. After integration into HP it became difficult to determine whether CMS's performance was attributable to its own employees' efforts or to contributions made by other HP departments and employees. Finally, for the program to payout enough to close the gap with the HP pay scale, CMS managers judged they needed to pay out at least 5 out of 6 times (payouts were every 2 months) and average at least 10% of base salary. The program only paid out 4 out of 6 times and averaged 6.13% of base pay. Employees began to question the program and its credibility was damaged. Due to these and other concerns, management concluded that the benefits of the program did not outweigh the costs.

Experiment 5: The Workstations Group

Description: HP was having considerable trouble completing their new high-speed UNIX-based workstations in the early 1990s. Because speed to market is so important in the high technology arena, management made the introduction of this product a very high priority. Local management wanted to complete the project early, with high quality and with all the standard support services ready and trained. They, therefore, attempted to motivate employees to work more efficiently and effectively by implementing an experiment in pay.

The pay program introduced offered two different bonus packages, one for managers and one for engineers, to be paid at the completion of the project (if accomplished by the target date). Because management realized that the decisions made by managers would be vital to success, they offered a cash and stock program for managers (10% of salary stock grant and 5% of salary in cash). Stock awards were to be given 6 months after completion of the project to ensure quality of product and customer service. Engineers were to receive cash (between 5-7% of salary). The pay program was intended to motivate effective completion of the project. There was no intention to continue it. The reward amounts depended on a nomination and approval process that determined individual levels of contribution.

Results: The project was completed six months ahead of the target date. While some in the organization saw this as a success story for pay for performance, others were quick to point out that the pay program did nothing more than communicate the utmost importance management was placing on this project. Many believed, including Pete Peterson Vice President in charge of Personnel, that the perception of high priority was the most important motivating factor leading to the early completion of the workstation. A local personnel manager validated this view independently. She referred to the pay system as the "great catalyst" in the project. The fact that HP utilized an incentive program that had such high visibility showed, she felt, that the company was willing to try something new to get the workstation finished. That was motivating in it self.

An HP survey showed that 70% of the employees felt they would have worked just as hard on the project without the incentive program. But interestingly enough, 60% of the employees surveyed recommended that incentive programs be used with other projects at HP.

Summary of Hewlett Packard Conclusions

Below we offer final conclusion from an internal Hewlett Packard report (White Paper, 1994):

1. "Team based work environments appear to be producing increasing business results"
2. "Alternative pay systems have not proven necessary to produce positive results"
3. "HP's current pay system and other tools are sufficient to support the work team environment."
4. "Even though HP has gained valuable organizational learning from alternative pay experiments, the high resource commitment necessary to design and implement pay system changes and the limited return so far, indicates that HP does not need additional experiments unless they are markedly different."

HP's decisions to abandon alternative pay for performance programs was prompted by the decision of local management, who were eager to initiated these programs, to discontinue them. It also stems from the HR department's overall assessment of the 13 experiments in total (see Table 1). It seems clear that the several benefits of the pay programs in some of the cases described above did not outweigh their costs in the eyes of local management. In other cases, such as experiment 5 in the Workstation Group, though implemented without difficulties, local management and the corporate compensation department were not convinced that the alternative pay program could be credited with performance outcomes. Our interviews with managers in the five cases cited above support the conclusions in HP's "White Paper."

Discussion

The most striking finding from these pay for performance experiments is the size of the gap between the managers' expectations of benefits and the reality that they experienced in terms of costs. Whether from the difficulty of designing and maintaining the pay system or from what they perceived as relatively meager motivational benefits accrued, managers concluded that the cost benefit mix was not favorable enough to make these programs worthwhile. Managers conceptualized pay programs as one alternative in their managerial toolbox, and concluded that they could attain greater benefits through alternative managerial tools like coaching, training, etc.

One prevalent problem was difficulty with setting performance standards at the right levels that would strike the right balance between paying out enough to make incentives motivational without paying out too much. The need to make adjustments or renegotiate standards caused significant problems. The unusually high levels of trust and communication at HP should have given them an advantage in working out such problems. However, making adjustments produced major conflict and lost trust, despite the superior levels of communication and trust at HP. Employees came to rely on the extra money and perceived changes in terms of loss or taking away something positive that they had come to expect. This inflexibility is particularly problematic in the technology industry where firms need to continually innovate and improve efficiency just to stay competitive. A work force that always expects additional pay for additional progress can become a liability.

The turbulence of the technology industry also took its toll on these programs. Two of the pay experiments were one-time events, but four out of the eleven programs that, ideally, would have been ongoing were disrupted by reorganizations or other organizational changes. Similarly, disruptions in other areas of the company (outside of the control of the experimental areas) interfered with employees' ability to achieve performance objectives and rewards. This caused major frustrations for the workers. It suggests the importance of the context; in particular, the more rapid the pace of change, the more difficult and time consuming pay for performance programs are likely to be to design and maintain. Future consideration should be given to the rate of change in the environment and its impact on such systems. This may be of particular concern, given the general rate of acceleration in competitive forces and the need to adjust to them.

Again, the interesting thing here is the gap between expectations and reality, and this was true not only for the managers but also for the employees. Both management and employees had hopes as to what they expect to get from the system. Management hoped to obtain some kind of cost savings or productivity gains while employees hoped for additional pay. Both workers and managers appear to have been overly optimistic in their expectations about their ability to achieve their desired benefits (Taylor and Brown, 1988), and neither group may have been particularly explicit in communicating their expectations of the other. It would have been interesting to see what the reaction would have been if they had communicated clearly. Perhaps if their expectations had been voiced, they would have seen that their expectations were incompatible and this would have enabled them to avoid the lost efforts that went into these programs.

In summary, a number of the problems (cited earlier) in linking performance outcomes to effort and pay to performance that materialized over time caused the downfall of these pay for performance initiatives. A second factor in the decision to discontinue pay for performance programs, often overlooked by advocates, was management's assessment that other factors might just as easily be responsible for the positive outcomes of these programs. That managers who were eager to initiate these programs came to these conclusions is important since only they can adequately assess the tradeoffs between benefits, of which there were several, and costs.

Do these findings reflect a unique outcome attributable to HP's culture? The answer is yes and no. HP's culture is one that historically placed more emphasis on management that builds commitment than on monetary incentives. Clearly they would be more prone to abandon programs that threatened trust and commitment. This suggests that the conclusions of this study do not apply to low commitment firms. An alternative conclusion is that monetary incentives in a fast changing environment may undermine the capacity of a firm to build trust and commitment unless the process of introduction incorporates the honest discussion of mutual expectations suggested above, something that is very difficult to do.

References

Amabile, T. (1988). A model of creativity and innovation in organizations. In Staw, B.M. and Cummings, L.L. (Eds.). Research in Organizational Behavior, 10. Greenwich, CT: JAI Press.

Baker, G., III. (1993). Perspective: Rethinking rewards. Harvard Business Review, 71(6), p. 37.

Beer, M. (1982) Human resources at Hewlett Packard. Case: Harvard Business School.

Beer, M. (1993). Perspective: Rethinking rewards. Harvard Business Review, 71(6), p. 37.

Beer, M. & Katz, N. (1998). Do incentives work? The perceptions of senior executives from thirty countries. Paper presented at the Academy of Management annual meeting to the Human Resource Management Division.

Deci, E.L. and Ryan, R.M. (1985). Intrinsic motivation and self-determination in human behavior. New York: Premium.

Gerhart, B. and Trevor, C.O. (1996). Employment variability under different managerial compensation systems. Academy of Management Journal, 39, 1692-1712.

Hamner, C. (1975.) How to ruin motivation with pay. Compensation Review, 88-98.

Hein, K. (1996). Raises fail, but incentives save the day. Incentive 170, 11.

Kohn, A. (1993). Why incentive plans cannot work. Harvard Business Review, 71(5), p.54.

Luthans, F. & Stajkovic, A.D. (1999). Reinforce for performance: The need to go beyond pay and even rewards. Academy of Management Executive,13(2), 49-57.

Meyer, H. (1975). The pay for performance dilemma. Organization Dynamics, 3, 39-50.

Pearce, J. L., Stevenson, W.B., and Perry. J.L. (1985). Managerial compensation based on organizational performance: A time series analysis of the effects of merit pay. Academy of Management Journal, 261-278.

Pfeffer, J. (1998). Six dangerous myths about pay. Harvard Business Review, 76, 108-119.

Schuster, J.R. and Zingheim, P.K. (1992). The new pay: Linking employee and organizational performance. New York: Lexington.

Taylor, S.E. & Brown, J. (1988). Illusions and well being: A social psychological perspective on mental health. Psychological Bulletin, 103, 193-210.

Hewlett Packard Document. (1994). White Paper: Alternative pay programs at HP.

Table 1

Locations, Programs Elements, and Final Status

Organization (Date Approved)	Elements of Program	Current Status (9/94)
Workstations Group (7/90)	- Cash - Incentive awards	Implemented; Completed 1992
Puerto Rico (10/90)	- Skill-based pay (with pay for performance) - Team bonus	Discontinued
San Diego Site (2/91)	- Skill-based pay (no pay for performance, 9/93) - Team bonus (6/92)	Discontinued
NCMO (2/91)	Gainsharing	Cancelled by entity management due to organization change
LID (5/91)	Division profit sharing (Gainsharing)	Cancelled by entity management due to division reorganization
Eastern Sales Parkridge, NJ (12/91)	- Modified skill-based pay (with pay for performance) - Transitional reward and incentive plan	Program implemented but cancelled due to reorganization (part of organization moved to Roseville)
Boise Printer Division (12/91)	- Skill-based pay (no pay for performance, 2/93) - Team bonus (2/93)	Discontinued
Vancouver Division and ICD (9/92)	Bonus pay for production operators and supervisors	Discontinued

Colorado Memory Systems (3/93)	Gainsharing with pay at risk	Program stopped due to reorganization 9/94
Medical Products Group (7/93)	Team recognition and reward	Discontinued
PRCO Loveland (7/93)	Bonus program to increase yield to 95% for Q4 FY93	Discontinued
Belgium (10/93)	Base pay indexed with merit pay as bonus	Not pursued at country's request
Italy Sales (10/93)	Freeze base pay with bonus for performance	Discontinued