The Economist

Schumpeter

Driven to distraction

Two and a half cheers for sticks and carrots

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Illustration by Brett Ryder

THIS is bonus season in the financial world. That means, of course, that it is bonus-bashing season everywhere else. The righteously outraged have no shortage of arguments on their side, from the mind-boggling size of the bonuses to the fact that the banks were recently rescued with public money. But if they want to mix a bit of theory with their spleen they now have a book to help them: Daniel Pink's "Drive: The Surprising Truth About What Motivates Us". It seems that bankers are not just slaves to greed. They are also slaves to a discredited management theory: the idea that the best way to motivate people is to use performance-related rewards.

Mr Pink's argument is hardly new. Eminent management theorists have been dismissing payment-by-results as simplistic and mechanical ever since Frederick Taylor tried to turn it into the cornerstone of scientific management in the early 20th century. But Mr Pink's book is nevertheless well-timed. The widespread fury about bonuses is sparking a wider debate about the way bankers and other lavishly remunerated

people are paid. “Drive” is a decent summary of the anti-Taylorist school of thinking. And Mr Pink, once Al Gore's chief speechwriter and now a prolific management writer, is a highly motivated self-publicist.

Mr Pink argues that the rich world is in the middle of a management revolution, from “motivation 2.0” to “motivation 3.0” (1.0 in this schema was prehistoric times, when people were motivated mainly by the fear of being eaten by wild animals). In the age of routine production it made sense for organisations to rely on sticks and carrots or “extrinsic motivators”, as he calls them. But today, with routine jobs being outsourced or automated, it makes more sense to rely on “intrinsic rewards”, or the pleasure we gain from doing a job well. Look at the success of collaborative marvels such as Wikipedia, Firefox or Linux, which were created by volunteers. Or look at the rise of social entrepreneurs or the movement to promote “low-profit” limited-liability firms.

Mr Pink argues that carrots and sticks are not only outdated, but can also be counterproductive—motivation killers and creativity dampeners. Paying people to give blood actually reduces the number who are willing to do so. Providing managers with financial rewards can encourage them to game the system or, even worse, to engage in reckless behaviour.

So how should firms motivate people? Mr Pink argues that the answer is to give them more control over their own lives and thus allow them to draw on their deep inner wells of diligence and drive. Software companies such as Atlassian and—of course—Google are giving workers time to pursue their own projects. Even low-tech firms such as Whole Foods and Best Buy are giving people more control over how and with whom they work.

How convincing is all this? Mr Pink insists that all he is doing is bringing the light of science to bear on management: “There's been a mismatch between what science knows and

what business does." But this argument depends on a highly selective reading of the academic literature. Four reviews of research on the subject from the 1980s onwards have all come to the same conclusion: that pay-for-performance can increase productivity dramatically. A study of an American glass-installation company, for example, found that shifting from salaries to individual incentives increased productivity by 44%. More recent research on workers at a Chinese electronics factory also confirms that performance-related pay (especially the threat of losing income) is an excellent motivator (see article).

Linking pay to performance does not just increase motivation. It also helps to recruit and retain the most talented. The world's brightest students are overwhelmingly attracted to organisations that make extensive use of performance-related rewards such as partnerships and share options. Firms are adept at using these rewards to encourage long-term loyalty: people work in the salt mines for years in the hope of becoming partners or senior managers. Companies that eschew extrinsic rewards risk lumbering themselves with sluggish dullards.

Self-determined to do better

What about Mr Pink's other worries, about creativity and "self-determination"? It is certainly true that creative people value the intrinsic things in life. But an enthusiasm for intrinsic rewards can go hand in hand with a taste for extrinsic gain. American universities attract star professors from all around the world by the simple expedient of paying them lots of money. Successful writers employ agents to get the highest possible advances (Mr Pink himself probably hopes to make some money from his book). Creative centres such as Hollywood and Silicon Valley are also hotbeds of payment-by-results. It is true that some of the world's best companies are putting more emphasis on "purpose". But it is quite possible

to mix this with pay-for-performance; indeed, companies that Mr Pink lauds, such as Google and Whole Foods, are highly skilled at using sticks and carrots.

All this suggests that Mr Pink has it backwards: far from abandoning sticks and carrots organisations are making ever more use of them. Companies are keener than ever on holding bosses' feet to the fire by linking their pay to performance through stock options and the like and on firing them if they fail. But they are also trying to widen pay differentials further down the organisation: about 90% of American firms use merit pay, for example.

There is no doubt that sticks and carrots can be badly used. They can encourage risky behaviour, as they have in the banking system, or persuade policemen to focus on minor traffic infractions rather than violent criminals, as they have in Britain. But properly managed they can be immensely powerful tools for boosting productivity and attracting the right people. For all the battering he has taken over the past hundred years, Frederick Taylor still has the edge over his critics.

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