

Incentive Systems Promote Corporate Corruption

The implied nature of every employment contract is one that requires the individual being employed to deliver his or her best effort in the discharge of the employee's accountabilities in exchange for the remuneration agreed to within the employment contract.

Output based incentive schemes, stock option plans and other perquisite type incentives have grown to become common variable compensation components in most organizations, predicated upon the assumption that they appeal to the very foundation of free enterprise and capitalism. They are as common in industry on the shop floor as they are for corporate executives charged with the overall managerial leadership of organizations. In each case we are falsely led to believe that these systems for compensation reward the true objectives of the organization. In many cases the incentive is confined to the output realized over a specified period of time.

If we could truly understand that this means of compensation detracts from the effectiveness of the people employed within these organizations because they offer a means for dysfunctional and corrupt behaviors we might be inspired to reconsider them. Every output based incentive system is predicated upon two fundamentally flawed assumptions:

1. *Employees arrive at work not to provide their best effort.*
2. *Employees are accountable for their own outputs.*

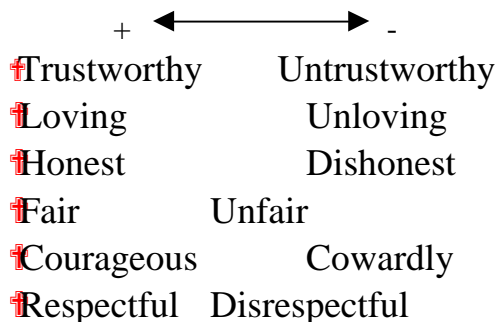
These assumptions at best define an obscurity in accountability within organizations, expecting that the incentive system will instill a measure of self-accountability, which when objectively considered can be concluded as being ridiculous. What would we say about industry if we began by assuming that the C.E.O.'s of major corporations are coming into work in the morning on the basis that they are not really showing up to do their best and are rather arriving on the basis that it is the incentive, or the stock option plan that is truly motivating them. Continue to entertain that if this is in fact the case that we are remunerating these individuals with the benefit of market prices that clearly are beyond their control. One would expect the chief executive officer is creating a future for the corporation that extends considerably further than the annual timeframe that his or her incentive is applied to. Although no doubt individuals of good moral character we might consider who wouldn't compromise the long-term future of the organization for a multi-million dollar annual incentive?

Applied on the shop floor, and although there has been considerable debate over many years, output based incentives are detrimental to the quality of the product and the health and safety of the employees producing it. What employee wouldn't assume a higher level of risk to reach a critical end point in the production process in order to realize a higher level of compensation than he or she would otherwise have been granted?

The very nature of these incentive schemes is one that is intended to appeal to the dark side of humanity, built on the assumption that in the core of human

nature are greed and laziness and a general defiance of the employer – employee relationship, one which assumes that employees cannot be trusted. Do these systems not reflect the general materialistic dysfunctional and corrupt behaviors of the broader society at large? Given to the fact that most individuals within democratic societies today are employed within organizations, the responsibility of these organizations and the chief executives that manage them is one which needs to consider fully the impact on the behaviors of employees, manifested as either functional or dysfunctional, virtuous or corrupt, reflecting not the intent of the individual and rather the functional capability of the system.

Essential to a full level of satisfaction while being employed is one’s ability to align favorably with basic values that are manifested via the systems in existence in organizations (or other social organizations or society overall for that matter). These are fundamental values that all individuals within all societies are endeared to, expressed on the continuum illustrated below:



When interpreted objectively through the eyes of those receiving the incentive it may be difficult to conclude that these systems are truly trustworthy and honest and fair. Most organizations that have output based incentive systems are

forever engaged in a conversation which is highlighting what it is that is wrong with the system and how it needs to be fixed, yet we are rarely led to conclude that it is the system itself, and not the people compensated by it, that has something innately flawed with it.

What, we ask, should we replace these compensatory systems with if they are to be transformed from dysfunctional to functional? Fair compensation and real managerial accountability. Each employee retained for his or her services by an organization should be viewed within the context that he or she has agreed to arrive each day to work to deliver willfully and freely his or her best effort, including among other the C.E.O. of the corporation, and each one of these in a trust enhancing manner should expect to be held accountable for the delivery of his or her best.

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References: “Social Power and the C.E.O.” Jaques,E., “Understanding Organizational Change”, MacDonald, I.