



M | pact INSIGHTS

Performance – without the drama

Smarter ways to pay your people without the annual meltdown

One of the biggest conundrums in business is why we keep doing things that either don't work (or where we are unsure of the outcomes) *and* cost a lot of money. Performance Management and pay-for-performance (P4P) are the best examples I know of exactly that.

There are many good reasons why P4P exist – for instance, it allows companies to manage fixed vs. variable cost; to differentiate pay outcomes; be able to provide a competitive pay to be able to attract and retain people (pay-to-stay) and influence performance (P4P).

All of these reasons are valid. What's not clear is whether the approaches companies take deliver the outcomes they are after.

And this is the first two of many fascinating conundrums about P4P:

- What actually enables performance? What role does money and incentives play in that connection?
- Why do companies keep doing P4P when they have little or no evidence that it works?

The last paper sought to challenge the many outdated beliefs and myths about human motivation and the role of money in that context.

As you can imagine, the question I have received after that is: That is all well and fine – but what do you propose instead?

That's what this paper is about.

To recap – where do we go wrong?

Most of the conversation about P4P is about technicalities – how to best distribute the available funds, which multipliers to use, and how to best ensure consistency, compliance and control, etc.

While that's important, we're often confusing this with what will actually improve the kind of performance we need in our context.

Here's the thing – the Rewards experts I have spoken with for this paper broadly acknowledge that P4P is often not designed with clear outcomes in mind – what exact behaviors do we need to deliver the kind of performance and culture we need to win? They have little to no certainty that their P4P design will deliver that.

We often design in total blindness of the effects (behavior, culture and performance), that our design will generate.

A lot of design is based on the flawed premise that people are driven mostly by money and therefore that money is the best lever to improving performance. *The thing is that it isn't.*

In the following pages, I'll lay out four alternative approaches that research indicates are more likely to yield better outcomes than most P4P schemes. More likely to improve engagement, retention, transparency, agility and by extension individual, team and organizational performance.

There is no panacea of course. No single solution that works in all contexts.

It's about getting the mix right for the context you find yourself in.

My hope is that this paper will provoke some thinking around how we best go about P4P to generate what it should be all about:

Improving future performance in a way that works both for companies and the people in them.

Whatever you do, ensure to **ground it in behavioral science**. Not what somebody believes or what other organizations do. But in what science has found actually works.

What we know about motivation and money

There are broadly speaking two schools of thought or philosophies in this respect:

- Those that see money as a **primary reinforcer** and can be highly effective when used strategically and behaviorally (Daniels and Gerhart), and
- Those who caution about the negative effects of money – notably that it only works **for certain types of work**. (Deci & Ryan, Herzberg and Kohn).

See the below table for details.

What determines most P4P in my experience is not any of the above research but a few people's beliefs about human motivation: if you believe in money is a motivator, you'll aim for a performance-oriented, competitive, metric-driven culture - and Gerhart and Daniels' approaches will likely resonate. If what you are after is a human-centered, values-driven, autonomy-focused culture that centers on long-term engagement, innovation and resilience, then intrinsic motivation strategies (Deci & Ryan's and Kohn) will resonate more.

The right question is, however, not which one is best.

This is about making a **strategic choice**: "What kind of culture, motivation and performance are we trying to cultivate - and for what kind of work?" and following that, "What is most likely to generate that outcome in our context?"

First, find out what culture and performance you need – and then turn the question on its head

I can't tell you how many times I've had a conversation where someone's voiced "this bonus scheme doesn't drive the right behaviors, but this new one will" - only to have the exact same conversation a few years later because the new bonus scheme also failed to drive the right behaviors.

Ensuring that people do the right things, the right way is difficult. It only gets more complicated when we put money at the center of things.

I'd encourage you to not start with design but with purpose and answering two key questions: "What performance do we need" and "How would we enable it if we couldn't pay for it?"

Let's start with the first question. All too often, I get a blank stare when I ask executives about what type of performance they need to win. One thing is clear though:

If we aren't clear and aligned around what performance we need to win, how on earth will we know how to generate and reward it?

Any good answer to what P4P you need has to start with a clear view of what you're trying to accomplish. Not in general but what performance you need specific to your context.

Then, instead of asking "How do we design our P4P best?", answer this question: "Let's say we can't pay for people to be and perform their best - what would we do instead?"

THE KEY INSIGHTS

1. Start with Purpose, Not Pay

- Define the performance you need.
- Ask: "How would we enable this if we couldn't pay for it?"
- Clarify what you mean when you say 'we pay for performance'.

2. Use Nudges, Not Manuals

- Reinforce behavior with Positive, Immediate, and Certain feedback (PIC).
- Use spot bonuses instead of delayed annual rewards.
- Make feedback and recognition easy, frequent, and fun.

3. Decouple PM from Pay

- Eliminate ratings and bell curves.
- Use richer data: business context, benchmarks, potential, retention risk.
- Shift from calibration drama to data-driven conversations.

4. Democratize Recognition

- Leverage peer-to-peer recognition more than top-down.
- Reduce or eliminate individual multipliers.
- There is no one-size-fits-all

If you do this, you'll inherently start your P4P design thinking about the many alternatives that have been proven to yield better ROI than the prevailing P4P (Lattice (2023); peopleHum (2025) and Boatman (2024) (see table below).

Initiative	Estimated ROI per \$1 Invested	Key Outcomes
Pay-for-Performance (P4P)	0.50 – 1.30	Mixed results: short-term gains, long-term risk
Regular Feedback & Reviews	2.00 – 4.00	Higher retention, engagement, and productivity
Goal-Setting Frameworks	2.50 – 5.00	Improved prioritization and team alignment
Employee Engagement Programs	3.00 – 6.00	Lower absenteeism, higher customer satisfaction

What you will eventually face as part of that conversation is this question: “How does pay fit into enabling the right kind of *performance*?” This is not about which philosophy you believe in but about how to get the mix right and being mindful of both the potential risks and the trade-offs, you make.

As many companies have already found out, you'll likely need different P4P approaches depending on what type of performance you seek to generate more of – for instance, if the main work delivers tangible and measurable outcomes (think sales or assembly line work), you may want a different approach to performance enablement and P4P than cognitive work whose outcomes are less tangible and where work requires collaboration and experimentation.

It's about designing your P4P for behaviors and EX, not just efficiency.

To sum it up, what is key is that you define both:

- A clear purpose for your PM (what kind of performance do we need to win?)
- An equally clear and corresponding purpose for your P4P: What do we mean when we say P4P? What is your '4' for?

Before you launch your new P4P, test it to understand both whether it generates the right behaviors and be curious about how it can be gamed. Always assume there are downsides to your P4P and that some gaming will occur. Never underestimate human ingenuity.

Nudges, not manuals

Another typical problem with P4P is that we reward performance that took place a long time ago.

The challenge with that is that this delay erodes the mental connection we make between what I did right and the positive reinforcement I receive for it.

The consequence of that is that P4P doesn't impact future behaviors much and whatever effect they may have, often fades quickly.

The American psychologist Aubrey Daniels provided a simple rule to what we need to do to change people's behaviors.

If what we are trying to accomplish is for performance to flourish, there's only one way to do that:

Catch people doing something right and provide immediate feedback.

This is supported by research by Buckingham, Hayes, Chumney, and Wright (2018) which indicates that it is easier for people to become great at something they already do well, than to try and fix something people don't do as well. It's all about how our brains are wired.

Dimension	Gerhart & Daniels (Strategic + Behavioral)	Deci & Ryan, Herzberg, Kohn (Intrinsic Motivation & Humanistic Psychology)	Key Difference
Core Belief	Pay can motivate if designed well and aligned with strategy and behavior.	External rewards often undermine intrinsic motivation and long-term engagement.	Whether pay enhances or erodes motivation.
Philosophical Lens	Behavioral economics, strategic HR, reinforcement theory.	Humanistic psychology, self-determination theory, anti-incentive ethics.	Pragmatic vs. values-driven orientation.
View on Money	Central motivator and powerful reinforcer when tied to performance.	Necessary for hygiene (Herzberg), but risky or harmful for motivation (Deci, Kohn).	Money as motivator vs. money as potential threat.
Motivation Source	External reinforcement: incentives, feedback, performance metrics.	Internal drivers: autonomy, mastery, purpose, achievement, meaning.	External vs. internal sources of motivation.
Design Priority	Strategic clarity, behavioral precision, frequent reinforcement, context-sensitive tailoring.	Job enrichment, autonomy support, psychological safety, removal of controlling incentives.	Designing for performance vs. designing for fulfillment
Risk of Poor Design	Gaming, short-termism, disengagement, reduced collaboration.	Loss of intrinsic motivation, reduced creativity, dependency on rewards.	Performance distortion vs. motivation erosion.
Best For	Output-driven, routine, measurable roles (e.g., sales, operations).	Creative, collaborative, purpose-driven roles (e.g., leadership, R&D).	Task type determines motivational fit

A well-designed P4P is one that enables that. One that nurtures people's motivation through positive reinforcement and in-the-moment nudges.

The good thing is that doing this is not as difficult as it may sound.

Before we go to the 'how', let's take a step back to 'why'. Aubrey Daniels lists three components that are key to changing people's behaviors:

1. Positive reinforcement works better than Negative.

Catch people doing something right, something they are good at.

Daniels (Daniels, n.d.) refers to this being 4x as effective as negative reinforcement which is what most people do – scolding people for not doing things right.

2. Immediate works better than Delayed.

Providing feedback or other reinforcements in or close to when things occurred is more effective than doing it long after things have happened. It's about *recency*.

3. Certain works better than Uncertain.

Consistency or certainty is key: if you know that 'X will happen if I do Y' you are more likely to adapt your behaviors to it.

In a table, Daniels' views look like this:

<i>Dimension</i>	<i>More effective</i>	<i>Less effective</i>	<i>Why it matters</i>
Type Positive or negative	Positive Reinforcement (rewarding desired behavior)	Negative Reinforcement (removing something unpleasant)	Positive reinforcement builds enthusiasm and engagement; negative can breed avoidance
Timing Immediate or delayed	Immediate	Delayed	Reinforcement works best when it's closely tied to the behavior - delays weaken the link
Certainty Certain or uncertain	Certain/consistent	Uncertain/inconsistent	Predictable reinforcement strengthens habits; inconsistency leads to confusion or apathy

In summary - Positive, Immediate, and Certain (PIC) outperforms Negative, Delayed, and Uncertain (NDU).

There are a number of implications of how we use that to design an effective P4P:

- ***Enable in-the-moment rewards to increase their reinforcement effect***

What this means is allocating all or a proportion of their bonus budget to spot-bonuses: bonuses that can be awarded closer to the actual performance and behavior we'd like to see more of. In practical terms, this would e.g. be just after having successfully completed a project.

What is key, of course, is to ensure you clearly articulate why and when one would be eligible (the objective criteria) to ensure you are consistent and fair and don't nurture favoritism.

Just to be clear; I'm not advocating that spot bonuses should replace base pay or other incentives. What I'm advocating for is that you find a way to get a proportion of your budget allocated to enable you to reward people closer to when they perform.

- ***Make it easy for your people***

Central to making in-the-moment recognition effective and stick is making it easy, fun and rewarding: it's about building a habit of recognition that is frequent and immediate.

The key words are ***Frequency and Recency*** – and making that easy to do.

The challenge I often hear is that it's difficult to get leaders to do this and do it well. One of the reasons, I believe, is that we have made it anything but easy, fun and rewarding for them.

Thales and Sunstein's *nudge theory* (Thaler & Sunstein, 2008) - the idea that small, well-designed interventions can steer people toward better decisions without restricting their freedom – can be helpful in this context:

- People tend to go for the default option, so make regular feedback the default e.g. by auto-scheduling monthly check-ins.
- Make it easy to sign up: use 'opt out' instead of 'opt in' and automatically enrol your people in recognition programs or peer-nomination platforms.

- We often have too many or poorly framed options that lead to leaders avoiding decisions: don't design and train people in elaborate manuals but focus on ensuring that they can easily find what they need to find and learn how to do it, when they need it.
- Performance is something we need to attend to on a regular basis which is why using visual dashboards to show how people – individuals and teams – are progressing toward their goals works better than merely focusing on that at end-of-year reviews. Many small and achievable goals work much better than few, stretched goals.
- People tend to go for the default option, so make regular feedback the default e.g. by auto-scheduling monthly check-ins.
- Make it easy to sign up: use 'opt out' instead of 'opt in' and automatically enrol your people in recognition programs or peer-nomination platforms.
- We often have too many or poorly framed options that lead to leaders avoiding decisions: don't design and train people in elaborate manuals but focus on ensuring that they can easily find what they need to find and learn how to do it, when they need it.
- Performance is something we need to attend to on a regular basis which is why using visual dashboards to show how people – individuals and teams – are progressing toward their goals works better than merely focusing on that at end-of-year reviews. Many small and achievable goals work much better than few, stretched goals.

Decouple PM and P4P

The problem with most P4P is that PM ends up being mainly about pay and not about improving future performance because we tie the two things so closely together. This is not least because we use performance ratings as the main lever for calculating pay outcomes.

What I mean is this:

- 1) Whenever you couple PM and P4P by using performance ratings of someone's past performance to determine someone's rewards, performance management ends up being about optimizing one's pay – and not about how we enable people to perform better going forward.
- 2) If what we're trying to accomplish is fair and equitable pay outcomes, we'll never achieve that if the main input are subjective performance ratings.

The key point here is that ratings and constant evaluation get in the way of conversations about how we improve someone's future performance. *What I advocate for is that you need to eliminate traditional performance ratings, calibration and mindlessly pursuing bell curves.*

Interestingly, this point is where I usually get the most pushback: *"How will we be able to determine who should be paid what without them?"*
My answer: it's not easy, but easier than you might think.

Using performance ratings as the main input to determine rewards outcomes is not only ineffective (because it is so subjective) but also because you ignore a lot of other factors that should be considered to get to fairer, more equitable and consistent pay outcomes and not least sustainable performance.

Merely relying on ratings is lazy and one of the key reasons we are far away from pay equity.

As I wrote about in the paper **'Busting PM Myths'**, to get to meaningful and equitable pay outcomes, you need to consider as a minimum these internal and external data points:

- The current business environment (how much money can you spend? How much do you need to spend to stay competitive and be able to attract and retain the right people?)
- How has your business performed relative to the market and targets?
- How do your approaches and each person compare to the benchmark.
- How critical are the person's capabilities and contributions for your business' current and future success?
- What is the person's future potential?
- Are there any retention risks (for a person you want to retain)?
- What is the person's past performance?

It's about getting more – and more objective – data to determine pay outcomes instead of relying on one that is subjective.

So, to be clear - it's not about ignoring anyone's performance but about acknowledging that we should not only base anyone's future pay based on their past performance.

If you apply this approach, pay reviews shift from dramas about calibrating ratings and forcing them into a bell curve to a collective conversation – based on all the above data – with the relevant managers about 1) what the data says and 2) how to leverage this data to distribute the available funds most effectively.

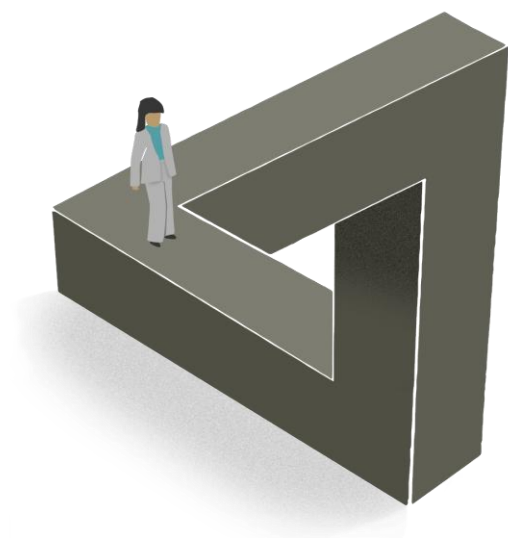
It becomes a much richer, data-driven conversation.

Many companies across industries have done this and with excellent results - in fact, the Head of Rewards in one of these companies told me that the only challenge they had was they now weren't able to report to the board that a "performance bell curve" was matched by a "pay bell curve". Their challenge was not whether they were able to distribute pay fairly and equitably – *it was only how they could prove, that they were.*

One reason bell curves mess things up is because research has found that performance doesn't follow a normal distribution or bell curve but instead follows the Power Law. All the drama we get from calibration is when we try and fit people's actual performance into something that fits a nonsensical bell curve. It's hard to see that anything useful comes out of all of that. That is, unless you see the drama surrounding it as useful.

One thing to remember: whatever design you go for, what is key is that you are transparent and can explain to your people how you determine pay outcomes.

As my former colleague from Korn Ferry, **Tom McMullen**, once wisely stated: "if you merely remove ratings, you run the risk of making an already opaque process even less transparent, leaving employees with a lack of confidence in answering the question: "How is my compensation determined with no ratings?"



I acknowledge that taking ratings away can be tricky: ratings is what most people know and because we have tied them to rewards, there is a lot at stake for people if you remove them. I also acknowledge that quite a few companies have faced considerable challenges if they have merely taken ratings away without making it clear how one's pay would be determined fairly and equitably without them.

As is often the case, I find we get into these challenges because we overinvest in design and underinvest in the considerable task of managing the change effectively.

If we remove ratings, one consequence of this is that managers often complain of lacking a tool to differentiate between high and low performers: the issue is that you don't need ratings to do that – the availability of more objective data and spot bonuses provide ample alternatives to differentiating meaningfully without ratings.

Another potential consequence of not having ratings is that things feel too loose and lead to a lack of rigor and consequence. As a large Technology company told me, “our managers aren't able to get their people to do what they need them to do without ratings.” In my view,

The problem here isn't a lack of ratings but the (lacking) quality of leadership.

Democratize recognition

Most P4P is applied top-down and centers on monetary rewards. What is more effective is giving people attention (Buckingham & Goodall, 2019) and recognition that isn't monetary (CIPD, 2020; MTM Recognition, 2025).

There are a few options for how to do that.

1) Leverage peer-to-peer recognition

What we need is a mechanism that allows everyone to focus on the behaviors we want more of. What the company *Workhuman* does is exactly that.

What I have seen them do for instance for a large financial institute is to delegate a proportion of their rewards budget to everyone in the organization.

The approach they implemented was for everyone to be able to reward anyone with non-monetary recognition, when they found that the person had done something positive that deserved recognition. In the moment. No admin or approval process but guardrails of course to ensure people didn't merely reward their friends.

What was interesting about this approach was that:

- 1) The focus was on non-monetary recognition and it worked because the gesture and being recognized by a colleague was what people appreciated, not whether it was big or small,
- 2) The fear that people would merely reward their friends proved unfounded, and
- 3) Data indicated that the ones who were awarded the most recognition by managers and colleagues were often *not* the ones the company saw as their high-performers or talents.

The point here is not what technology you use, but the principles of immediate recognition and making that something collective, not top-down. What you are more likely to achieve through this is a greater awareness of what behaviors and performance we would like more of, and a shared effort to recognize people for doing something right as it happens.

What is also fascinating about this approach is that it allows companies to influence behaviors top-down through in-the-moment nudges and at scale. Very few P4P have anything that resembles that ability or effect.

2) *Reduce or eliminate individual multipliers*

Another challenge I touched upon in part I is the challenge that comes with our extensive focus on the individual over the collective, and how that can hamper collaboration, innovation etc., especially when work is more complex (or what we'd call cognitive work).

Some companies have positive experiences eliminating individual multipliers in their bonus schemes – that is, that the person's individual performance is the key variable used to calculate pay outcomes.

They have either replaced individual multipliers with multipliers that look at team and organizational performance or implemented a mix where e.g. 10% is individual and 90% related to the collective to ensure that money didn't stand in the way of collaboration and innovation.



The concern here is of course what this will do to people's motivation – whether you'll get more "social loafing" (freeriding) and whether your high-performers will be demotivated if they are paid like the rest.

As I pointed to in the part I [paper](#), research has indicated that while you may run the risk of demotivating the minority high-performers, you motivate the majority which on aggregate balances things out performance wise.

The risk is therefore not to your results but to our incessant focus on nurturing a small population in our organization to an extent where we often forget the real challenge: how do we motivate most of our people to be and perform their best most of the time?

Ask yourself what is more likely to generate improved results over time and in a way that is healthy for your organization's coherence and people's well-being: getting your top-performers to perform 1% better or lifting the rest of your organization's performance by 1%.

3) *Take the manager out of the equation*

Another option is to take the manager out of the rewards and P4P calculation altogether. This is what one of the world's largest consumer brands is doing. Their aim is to distribute funds most effectively and fairly – not primarily to use pay to enable performance. They have found that that can best be achieved by calculating pay outcomes centrally and without the direct involvement of managers.

One reason for this is the realization that getting pay right is very complex and not necessarily something every manager is capable of managing effectively.

4) Find the ambition / maturity level that will work for you

I'm often challenged that taking ratings away is an extreme measure. It may feel like that - but when you compare it to how companies have successfully moved beyond them, it's not.

One way to look at it is to look at the options along this continuum:



Research by Bryson & Freeman (2016), Schuster (1996) and Benson & Sajjadiani, (2017) suggest that Profit or Gain Share approaches can be helpful if what you're trying to accomplish is increasing employee engagement, teamwork and flexibility and reduced bureaucracy.

Some companies go further than that and democratize pay in full or parts. At one company I recently met, the employees determine their own pay (within guardrails of course).

Decoupling PM and P4P seems pretty conventional by that comparison.

Final thoughts

The points I'm trying to make are that there are alternatives to conventional P4P which sets off in the mindset "the more we pay, the more people will perform".

What I have tried to illustrate is that there is much more to human motivation and what actually enables performance than just pay.

As I've also tried to illustrate, there isn't one solution that will solve all issues or is eternally good or bad: they all come with trade-offs that you should be mindful of.

What all of this leads to is that there is merit in experimenting with vastly different approaches to what most companies conventionally do. One main reason:

The alternatives outlined above consistently deliver 2 to 6 times higher ROI than traditional pay-for-performance schemes.

Why? Because they focus on what actually drives performance: clarity of purpose, timely reinforcement, shared recognition, and data-informed decisions.

Instead of delayed bonuses and subjective ratings, they enable real-time feedback, foster collaboration, and build trust.

The results? Higher engagement, better retention, stronger alignment - and a culture where performance improves because people want to, not just because they're paid to.

This brings me to my final but most important point: If the data points us to doing things very differently, there is only one question remaining:

What's holding your company back from doing just that?

Two things mainly drive this:

- The beliefs of many executives that money is the main driver of performance
- The perception that the risks of doing something different outweighs the risks related to sticking to what we have.

There are ways to both convince executives to do things differently and to manage the transition effectively.

References

- Daniels, A. (2016). *Bringing out the best in people: How to apply the astonishing power of positive reinforcement* (3rd ed.). McGraw-Hill Education.
- Aubrey Daniels International. (n.d.). *4:1 Ratio*.
- Benson, A., & Sajjadi, S. (2017). Are bonus pools driven by their incentive effects? Evidence from fluctuations in gainsharing incentives. *University of Minnesota, Carlson School of Management*.
- Boatman, A. (2024, March 12). *Measuring ROI of employee engagement: A practical guide*. AIHR.
- Bryson, A., & Freeman, R. (2016). Profit sharing boosts employee productivity and satisfaction. *Harvard Business Review*.
- Buckingham, M., & Goodall, A. (2019). *Nine lies about work: A freethinking leader's guide to the real world*. Harvard Business Review Press.
- Buckingham, M., Hayes, M., Chumney, F., & Wright, C. (2018). *The global study of engagement: Executive summary*. ADP Research Institute.
- Chartered Institute of Personnel and Development. (2020). *Incentives and recognition: Evidence review*.
- Dad, H., Ali, R., Janjua, M. Z. Q., Shahzad, S., & Khan, M. S. (2015). Comparison of the frequency and effectiveness of positive and negative reinforcement practices in schools. *International Journal of Education and Practice*, 3(10), 224–234.
- Gerhart, B., & Rynes, S. L. (2003). *Compensation: Theory, evidence, and strategic implications*. SAGE Publications.
- Kohn, A. (1993). *Punished by rewards: The trouble with gold stars, incentive plans, A's, praise, and other bribes*. Houghton Mifflin.
- Korn Ferry (2024). *Busting PM Myths*.
- Lattice. (2023, August 15). *The ROI of performance management: Why reviews, goals, and feedback are essential*.
- McMullen, T. (2023). Differentiating pay without performance ratings. *Workspan*, 76(4), 22–27.
- MTM Recognition. (2025). *Cash vs. recognition: Which motivates more?* peopleHum. (2025, April 29). *The ROI of performance management*.
- Schuster, M. H. (1996). Gainsharing: Design and implementation answers. *Association for Manufacturing Excellence*.
- Thaler, R. H., & Sunstein, C. R. (2008). *Nudge: Improving decisions about health, wealth, and happiness*. Yale University Press.
- WorldatWork. (2024, April 25). *Prioritizing performance: How might this push impact pay strategies?* Workspan Daily.