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# Changing Employee Behavior in a Changing Workplace

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**FRED E. WHITTLESEY**

**T**his interview is based on “What Motivates and Demotivates Employees,” presented at the Strategies for a Changing Workforce Conference in March 1998, cosponsored by the International Foundation of Employee Benefit Plans, the American Compensation Association, and the Society of Actuaries. The interview was conducted by Victor Barocas, Managing Director, Strategic Management Group.

ORGANIZATIONS ARE EXPERIENCING significant change—not only in the composition of the workforce but in the structure and processes of work itself. These changes exacerbate the challenges of managing employee performance. But employers must focus on changing the behavior of employees, not motivating them. Unfortunately, durable and significant changes in behavior are rarely achieved through centrally administered programs without substantial revisions to performance management processes and risk-reward relationships. Restoring the inherent and available productivity levels of a smart, motivated workforce takes more than a surface redesign of compensation plans. All organizations have tremendously powerful, effective reward systems that continuously reinforce and extinguish behavior—hour by hour, minute

by minute—beyond the purview of the HR department. Organizations of the future must integrate an effective performance management program with ownership-oriented compensation strategies to manage their diverse and complex work environments.

**BAROCAS: Let’s start with the basics. What should compensation and benefit practitioners understand about what motivates and demotivates people in this changing workforce of ours?**

**WHITTLESEY:** First of all, when I hear the word “motivation” in a client’s question, the first thing I ask is “Are you talking about motivation or are you talking about changing employee behavior?” We usually agree fairly soon that we’re talking about changing behavior. A lot of the things we spend our time doing are not really designed to motivate people, but to direct behavior of employees to certain ends. When people become demotivated it is typically not because of compensation and benefit programs we design but because of things

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happening out on the factory floor or in the sales office or down the hall with line managers and others.

We need to ask this as we design compensation and benefit programs: What do we want employees to do? What kinds of behaviors? We want a certain quantity of work, a certain quality of work. We want accuracy. We want employees to show initiative. We want employees to exhibit creativity. We want employees to work as a team and show some leadership. These are the behaviors employers are trying to find ways to reward. Employees are already motivated to do something . . . we have to get them to do *our* something.

**BAROCAS: How does this relate to the changing workforce?**

WHITTLESEY: Everyone is talking about how the workforce is changing and asking how we motivate this “new workforce.” Sure, the “who” is changing—it’s not a white, male workforce anymore. The mix of gender, ethnicity, age, and family status is different. But demographics are not the only factors driving this issue. In addition to who, we have to look at the why, where, how, what, and when.

**BAROCAS: So you’re suggesting that defining these issues only in terms of a “changing workforce” is too narrow?**

WHITTLESEY: Absolutely. The “why” of work and what people expect from a job has changed. It’s not just economic; it’s lifestyle, balance, and the reasons people have for working. If you look at the research you see that employees’ priorities have very little to do with money and a lot to do with things like security, lifestyle, and time with the family. The “where” of work also is changing—whether we’re talking about working at home, having employees scattered around the world, or employees working out of their cars with laptops, cell phones, and fax machines.

This, in turn, has changed the “how” of work. Aside from the type of people and where they are working, they are doing different things in different ways. From the executive suite to the factory floor, we can no longer think of the typical work environment. We expect factory workers—the traditional, blue-collar employees—to know technology and understand information management,

not just how to make widgets. And so the “what” workers do has changed as well, even in the most basic jobs. Finally the “when” of work has changed. Not just flex time, but when people go to work, when careers begin, when careers end, when careers restart.

So you can see that focusing only on employee mix is not broad enough to encompass all the changes affecting behavior.

**BAROCAS: How do we address the issue of motivation given the complexity of these issues?**

WHITTLESEY: Again, let’s go back to basics. *Webster’s* defines *motivate* as “to stimulate active interest of.” That’s what we’re trying to do with our employees—trying to stimulate their active interest through appeal to associated interest or through a special device—maybe an incentive plan—“to make interesting or otherwise appealing; see motive.” *Motive*, in turn, is defined as “something that causes a person to act in a particular manner.” This makes it clear why changing behavior is actually a more important concept than mere motivation. As employers, we think we are the sole provider of the stimuli. All we have to do is change the stimuli and people will behave differently, right? If we have a gain-sharing plan, they’ll concentrate on cost reduction. If we change the sales commission plan, they’ll sell more products or a different mix of products. If we change our retirement plan, different people may come and go from the company. But that isn’t necessarily how it plays out.

**BAROCAS: But isn’t that the premise of our field? Designing compensation and benefit programs to support business strategies and objectives?**

WHITTLESEY: A few months ago in *Forbes* magazine there was a piece debating whether bonus plans are effective. A prominent writer talked about Maslow and Herzberg and other theorists. I think we tend to forget some of the basic theories that have been validated over time, like Maslow’s hierarchy of needs. First and foremost, people have to eat and sleep. After that, we have safety and security needs. Interestingly, these needs are mentioned more than any others by employees in surveys, particularly for Generations X and Y—we need safety and we need security. Once we’ve satisfied those, the theory goes, we have

affiliation needs. And from there we go to self-esteem and Maslow's concept of self-actualization. You know, along the Army's lines of "Be all that you can be." Now, Maslow was talking about a white, middle-class, World War II-era America. But what about other countries, other cultures? Is this still true? Some research says no, that's not true. McClellan said we have three basic needs: achievement, power, and affiliation—different but not in conflict with Maslow. We must not forget that compensation and benefits are not the only, and certainly not the fundamental, needs of our workers. And behavior occurs in response to needs.

**BAROCAS: Which of these theories, if any, do you subscribe to?**

**WHITTLESEY:** The one I believe best explains what we do is expectancy theory, by Vroom and others. For employees to be motivated, the theory states, they have to see three different sets of connections. First, if they put out the effort to do something, is that going to be considered good performance? "If I really work hard on this, will my boss come to me and tell me I did a good job? Otherwise, it's not worth my effort." Second, if they do a good job, will they be rewarded for it? "If I work harder and better am I still going to get a 3.2 percent salary increase like everybody else, and the same paid time off, and the same benefits, and the same everything else?" Third, does the employee really value this reward? "Thanks for the \$50 bonus, but I don't really care; I'd rather have an extra day off." These links are where most of our compensation programs break down. We spend a lot of time designing rewards that may not be valued—either because of the form of reward or its relative and absolute magnitude.

We're all familiar with how difficult it is to achieve that second link: making sure performance as evaluated and documented on the evaluation form is truly rewarded. Yet the area receiving the least attention has been ensuring that people really believe that when they put out effort it will be considered good performance. This is as simple as setting good objectives and goals and clarifying performance expectations. And that's performance management.

**BAROCAS: And are these theories still valid? Some of them were developed quite some time ago.**

**WHITTLESEY:** I'm reading a book now about the 12 key factors in an effective church. Sure enough, there are six satisfiers and six dissatisfiers. The six satisfiers won't prevent dissatisfaction and the six dissatisfiers won't create satisfaction. It's Herzberg's motivation and hygiene theory. These theories seem to be standing the test of time.

**BAROCAS: Are there any newer ideas in this area?**

**WHITTLESEY:** Well, I'm starting to believe there are no really new ideas on this topic. Some of these concepts are 40, 50, 60 years old. I recently found a very interesting book by Spitzer called *Supermotivation*, written a year or two ago. After scanning this work, I concluded nothing is new. Spitzer says people want affiliation like Maslow said, achievement and power like McClellan said, as well as activity, ownership, competence, recognition, and needing. And that's the secret to "Supermotivation." Then he goes a little farther and states what motivates people: fun and variety, input and choice, responsibility and leadership opportunity, social interaction and teamwork, toleration of learning errors, stake-sharing, goals and challenges, encouragement, appreciation, and measurement that shows performance increase.

**BAROCAS: It sounds like most of that has nothing to do with compensation and benefits.**

**WHITTLESEY:** Exactly! If Spitzer is right, and if Maslow and the other predecessors are right, very little of what we do with respect to compensation and benefits motivates people. And what demotivates people? Spitzer says company politics, unclear expectations, unnecessary rules, unproductive meetings, internal competition, withholding information, criticism, tolerating poor performance, unfairness, an unrealized capacity. This sounds like where Dilbert works!

**BAROCAS: So, what do we do about that as compensation and benefits professionals?**

**WHITTLESEY:** As a benefits expert, as an actuary, as a compensation plan designer, we've been given the assignment to design a program to "fix the problem." Who's causing the problem? It's not the HR department. This is one

of the symptoms I see that will force HR to get in step with the rest of the business. We're sitting in HR designing compensation and benefit programs and those crazy line managers are out there doing something else. So no matter how hard we try, we haven't addressed eight or nine key things because we can't. It's not our job, and the managers are causing these things to happen. Our hands are tied.

So, what motivates and demotivates people? Things that have little or nothing to do with what we do for a living.

**BAROCAS: Then where does the process break down?**

**WHITTLESEY:** The "employer menu," as I call it, is the list of what we're trying to get people to do—come to the company, work, provide a quantity and quality of service to the company, and stay with the company to the extent they're a good performer. We assume this also is the employee's motivational structure, and all we have to do is turn the right knobs and dials and figure out what kinds of compensation and benefit programs we need. What kinds of behaviors are we going to encourage and extinguish with our defined benefit pension plan.

But there's a separate employee menu that goes like this: "I can do my work. But I'm concerned about my retirement because my employer doesn't offer a pension plan—I'd better go on the Net and check my stock prices instead. Maybe I should just go home. I'm not going to stay here and work until 9:00 at night, especially when nobody tells me they appreciate it. Maybe I should call a friend, or maybe I should surf the Net and look for a job. Maybe I should go to happy hour and just relax. Maybe I should order a pizza or take a nap." People get hungry; people get sleepy; people get thirsty; people miss their family and friends; people need praise for a job well done. Basic human motivational factors are not going to be changed with compensation and benefit plans. There are deeper needs and deeper desires that go beyond what we want them to do at work. This is why trying to change the employee menu with centralized programs will not succeed.

**BAROCAS: Can you give a specific example of how this manifests itself in an organization?**

**WHITTLESEY:** OK, I'll pick an easy target: performance evaluations. Anybody who has ever done one knows giving a negative performance review is a very unpleasant experience—especially if you have worked with the person all year, and like them, but they're just not doing a good job. Managers hate that. Now, what's a great reward in this situation? Not doing the review, which is possible in a lot of companies. Or saying, "You're doing fine; it's OK, really. Yeah, there are a couple things but don't worry about it." And the manager goes away feeling good instead of bad. That's rewarding. If there's no offsetting punishment, that's what will happen. No one would label this a "compensation plan" but it's clearly a reward-punishment system that changes behavior.

**BAROCAS: Does this go on in a lot of organizations?**

**WHITTLESEY:** We see so many organizations where, on a scale of five, nobody gets a one or a two. On an at-expectation, above-expectation, below-expectation scale, almost nobody is rated below expectation. Amazingly, we all work for companies where everybody's doing a great job! Actually we work for companies where there is an intrinsic reward for telling people they're doing OK, even if they're not, and a great punishment for telling people they are doing a poor job when they are. That's how it is, all the way to the top: boards of directors don't like to tell CEOs when they're doing a poor job. CEOs don't like to tell senior managers they're doing a poor job, and on down the line. So, again, the reward-punishment system changes behavior, even before we try to tie performance evaluations to pay decisions.

**BAROCAS: Back to our theme: how does this relate to the changing workforce—or the changing workplace?**

**WHITTLESEY:** First of all, motivational structures vary more among today's workers. If we've got a diverse workforce, we can't assume Maslow's hierarchy is true for everybody . . . that everyone wants to get fed and rested before they move to the next level of security and on. It may be true; it may not. We also have to realize that needs and desires are changing more quickly. But we have to understand the

total picture and not limit our thinking to the few behaviors we think we can see and manage in the workplace.

Next, we have organizations where workers may not be as closely supervised due to telecommuting and flatter organizational structures. We can't sit over all workers and watch them in the traditional chain of command so we know what they're doing—know how they're behaving. As home and work become more integrated, how do we know they're not goofing off when working at home? How do we know they're really doing their job? We're trying to modify behavior we can't even see.

Finally, employment now provides for fewer existence and safety needs. We've certainly pulled away any dream of lifetime employment and job security. We're also pulling away pension benefits and generous health care coverage. We're changing from full-time employees to other types of workers. We've said we're not going to meet your basic needs; we can't guarantee you'll be able to eat or promise you'll be safe and secure. And, that's why those things are rising up so high on the list of priorities, because people are saying, "Gosh, I'm really worried about some of these fundamentals. Yet they want me to be the motivated worker."

**BAROCAS: Is this why you're saying the solution is employee ownership?**

**WHITTLESEY:** We need ownership-oriented solutions and strategies, integrated with performance management.

We have spent a lot of time and effort trying to design compensation and benefit programs that change people's behavior, but there are a lot of forces working against us. We read articles that say incentive plans don't work, or someone says, "We tried that employee ownership thing, and it didn't work." What do you mean it didn't work? "Well, we gave stock options to everybody, and it didn't work." What was it supposed to do? "We're not sure, but we know it didn't work." We're throwing compensation solutions at some of our perceived problems, many of which we're hearing from line managers, but we don't have the tools in our tool kit to do that. Real ownership involves more than implementing the latest fad, which seems to be all-employee

option plans that are designed and implemented with little thought or analysis. And ownership must be coupled with an effective performance management process—goal-setting, communication, feedback, significant rewards and penalties tied to performance. When companies explore "open book management" they're integrating performance management concepts under the umbrella of employee ownership.

**BAROCAS: What types of behaviors are we really talking about? Productivity? Attendance? Teamwork?**

**WHITTLESEY:** Essentially, we need to direct motivated employees to exhibit behaviors that achieve organizational goals. And owners are inherently directed toward those goals when they understand what they are and how to achieve them. We're talking about any behavior the organization needs to succeed. Maybe the behavior we want them to exhibit is leaving. If we need to eliminate 10 percent of staff but we don't want to downsize, can we just get the most unproductive 10 percent to leave? Short term, you can't do that with a compensation program or a benefit plan. An English philosopher, Jeremy Bentham, said, "Nature has placed mankind under the governments of two sovereign masters, pain and pleasure." As compensation and benefits practitioners, we assume if we keep throwing pleasure opportunities at employees, behavior will change. But we have very few mechanisms to introduce pain into the formula. When painful types of actions are discussed, they are very quickly discounted in many cases. Real ownership involves both pain and pleasure. Yet we keep relying on the same old tools.

**BAROCAS: How do you define these tools?**

**WHITTLESEY:** Our toolbox contains four different ways to pay workers—cash, securities, goods and services, and time and place. Typically we're trying to design a cash flow to fit a system, which means we turn it into a base salary or a wage or for a contractor an hourly rate. Or we turn it into a lump-sum, variable, performance-based program to try to shift fixed costs to variable costs and change behavior. Or we turn salary into something called a pension plan and defer it into a lump sum or an annuity. What we're saying is, "I will pay

you cash for what you do—every two weeks, at the end of the year, or at the end of your career.”

The second is securities, stock. We can give it to people, let them buy it, or give them an option. Companies are jumping on the employee stock option bandwagon because they’ve seen it work in some places.

We can give them goods and services. Our current tax structure favors giving employees things like health and welfare benefits because they are tax free. Or we give them some perks that used to be much more tax free.

Finally, we can alter time and place—paying them even though they don’t come to work. Letting them work at home. The companies in Silicon Valley are a great example. They used to offer a lot of stock options in lieu of cash. Then the labor market heated up, and they started using a lot of cash. Now we hear a lot of frustration because salary levels are the highest in the country. They’ve given up so much stock in the company that the investors are angry we have so much dilution and we still have high salaries. So we turn to time and place. Not just creative paid-time-off packages, but flexible work hours, flexible schedules, or using place as a form of compensation. The extreme case is companies that allow people to bring their pets to work. They didn’t do that just to be a nice employer, the business benefit is that people would stay longer at work if they don’t have to hurry home to their dog.

But we just keep adding. The word “take-away” strikes fear in the heart. Even if we replace it with something else, we still took it away.

**BAROCAS: So it sounds like we have a lot of tools available but could be using them better.**

**WHITTLESEY:** I think Herzberg would say we have spent our time on compensation and benefits satisfiers while our organizations and managers provide a variety of demotivators. No matter how well developed our compensation strategy, no matter how carefully we craft our mix of cash, stock, and benefits, most things that affect behavior are outside our control. There are things occurring in the workplace outside centrally administered programs.

**BAROCAS: What is the solution?**

**WHITTLESEY:** When people are more diverse, when the workplace is more diverse, when the priorities shift, when the expectations increase, it all becomes more complex than in the past. The solution must transcend these changes. As I’ve mentioned, we need two things, and we can call them whatever we want.

One, an integrated performance management process. We didn’t have to do as good a job at performance management when we could watch people hour by hour and monitor their behavior. Now we have to be sure people are self-directed toward clear goals. Remember expectancy theory. Do I know what to do, will it be recognized, will I be rewarded for it, and will I value the reward?

Two, real ownership. Worker ownership wasn’t as critical when we had a more traditional workforce looking for other things. Prior to the industrial revolution, we were a nation of employee-owners. Now, a recent study finds the majority of Generation X does not want to be CEO of a big company. They want their own business; they want a sense of ownership. That poses a problem for Fortune 500 companies when it skims the talent off to become owners because you don’t offer that opportunity other than in a nominal stock option program.

We’ve seen a lot of trends in the compensation field. Some ideas have worked, and some have not. But employee ownership is a worldwide movement, not just some consultant’s latest idea. If you go to Africa, eastern Europe, or Southeast Asia, this is how companies are being transformed. To dismiss this or ignore it misses the fact that it is already happening.

**BAROCAS: These seem like two somewhat unrelated ideas.**

**WHITTLESEY:** Yes, and they are treated as unrelated issues in our field. Having been in consulting for about 15 years, I’ve heard hundreds of clients say, “We have a compensation problem.” When we start asking them about it, we hear little talk about anything to do with compensation. They start talking about other processes that go on in an organization. The bonus plan doesn’t work. Why doesn’t the bonus plan work? Well, the

managers are trying to set goals but the goals don't really match up with our objectives and plans. And all of a sudden we're talking about performance planning. It has nothing to do with the bonus plan structure. Or, we have a performance evaluation form but it's not really consistent with the way we reward people, so the bonus plan doesn't work. Why doesn't the bonus plan work? Well, we offer a 3 percent bonus target...while giving 4 percent salary increases, 8 percent profit sharing, 10 sick days, and on and on. "Keep the 3 percent, I'm going home."

As long as we treat compensation, performance management, and employee ownership as separate categories, we will continue to see the same problems.

**BAROCAS: Let's talk about the elements of the performance management process.**

**WHITTLESEY:** When we talk about performance planning, we're not just talking about people and benefits. We're talking about the whole enterprise. And that's a process that goes on whether we in HR choose to use it and tie into it or not. Businesses have plans. They don't set objectives because consultants tell them to but because the marketplace tells them to. If you are a public company, the marketplace tells you very specifically what the objectives are and what the expectations are, particularly at this time of year when all the earnings reports are released. Open up *The Wall Street Journal* and see a word that's in the headlines constantly. *Expectations*. Dell Computer Corporation exceeds analysts' expectations—stock soars. Intel misses expectations—stock declines. It's always performance against expectations.

This is a market-based issue, not a choice, and what the board of directors and senior management do is translate market expectations whether you're a public company or a private company with some private investors and venture capital or a governmental organization with stakeholders who are dictators of your funding. We have to integrate that into the rest of our reward systems. That's the first point of failure.

We also need to support this process throughout the year. Ongoing communication. Do we wait until the end of the year to tell someone what they did wrong or did well

or do we communicate it? Do we have a mid-year review when we live in a world where a 12-month budget may be long-term thinking? Or when we work in an industry where a year from now is light-years away? Can we really afford to set goals January 1st and come back December 31st and see if we met them? Also, we need to fold in the career counseling issue. This is something that 10 years ago we were talking about with companies and they said, "Yeah, that's really nice, we agree that we have to set goals because people respond to goals." We have to check in with them throughout the year. If we don't provide a sound career counseling process for our workers someone else will—our competitors, headhunters. If you don't go to your employee and say, "You know, you're really good. I think you've got a lot of potential. Where do you want to go in the future?"—it's this lack of a process that is one of the demotivators in the workplace.

Then, there's the performance evaluation process itself. Is my manager the only one who knows how I perform? Do I have to rely on my manager to tell me if I did well or not? What if my clients, or our vendors, or my peers think I did well? Is it demotivating to me to know that I had a great year but my manager just doesn't see it?

Finally, the total economic system of the organization must be addressed in terms of reinforcement. If I lose my 5 percent bonus by going home from work an hour early every day, that might be a very good compensation structure for me as opposed to staying an extra hour and getting 5 percent more money. Or if I don't achieve my objectives but there's no real downside risk, life might be a lot more relaxing without worrying about those performance objectives.

**BAROCAS: This is certainly theoretically sound, but does this really solve the problem?**

**WHITTLESEY:** Well, let's look at just one element, performance planning. We know people respond to goals and challenge. We know that if you set a goal for a person, even if there's no reward tied to it, they will perform better. If we accept that demotivators are unclear expectations, withholding information, internal competition, and unnecessary rules, the way to get around them is to have very clear performance objectives and goals set at the outset

so people know what the expectations are. Because we see the desires people have. They have a desire for achievement. They want to do something. They want some meaning to it. But we can't just go to them and say, "Here's your job, and here's the plan."

A few years ago a large corporation had an all-employee incentive plan that was based on earnings per share. I can assure you very few people in that organization understood earnings per share, even after the communications package went out. "I want to do well, but I don't know what doing well means."

Or consider another part of the process, performance support, where a lot of the demotivators occur and the potential motivators are overlooked. If we're doing ongoing communication throughout the year, career counseling, we're addressing the issue of people's tolerating learning errors. We talk with them about it over the course of the year. They get the opportunity, encouragement, and appreciation. I was giving a presentation to one client and we were talking about feedback and one manager said, "I'm so busy, I'm just swamped with work. How am I ever going to do this feedback thing?" And I said, "Maybe next time someone does a good job, you could say, 'hey, good job!' Do you have time for that?"

**BAROCAS: OK, but how important really is something like feedback versus pay and benefits?**

**WHITTLESEY:** When we do employee attitude surveys in companies, even in the best managed companies, people say, "This is a great place to work, good pay, good benefits, I love it here, but I would really like it if once in a while when I do something good I was told about it, because consistently, if I do something wrong, I'm told about it. That's the only change I'd make here—a little more encouragement." And not from speeches by the CEO, but from the direct supervisor, the department head, the team leader. Line management cannot delegate it to the HR department.

**BAROCAS: Does this talk about line management mean the department manager or supervisor or does it go all the way up to the CEO?**

**WHITTLESEY:** In my experience, if the CEO buys into this process, and the CEO does perfor-

mance reviews with his or her direct reports, and any communication about the process comes from the CEO, it will get done, and it will be a good, valid process. And it's just as likely when a memo comes from the HR department that says, "You need to fill out this form." The manager will look at the directives that came down from the CEO. "This can't be that important because the CEO is telling me something else is important." The HR directive ends up at the bottom of the pile. They just don't have the same weight.

**BAROCAS: And where do compensation and benefits tie into this?**

**WHITTLESEY:** That's the reinforcement piece. When we start thinking about the total reinforcement structure and what causes people to do things or not do things, it's a lot of punishments like unproductive meetings and politics that go on that really turn people off. I've worked for a lot of founder-managed companies—the person who started the company is still there in the corner office. In those cultures, the most powerful reinforcement and extinguisher in that company is still the founder's approval or disapproval of behaviors. The mere smile or scowl of the founder toward an employee's actions is a very powerful force. In some of the most extreme cases, employees say "You know what, as long as I make the top guy happy, and I make them happy once a week with what I do, I can ignore my supervisor, I can step all over my peers, and ignore my employees." Because that's the biggest reinforcer in the organization, and it works, and it changes behavior. Regardless of the compensation and benefits program.

**BAROCAS: Now let's talk about the other solution, ownership.**

**WHITTLESEY:** What is ownership? Well, it means to have or hold property, to possess something. We say, "Well, what's the legal definition?" Ownership means you own a bundle of rights, powers, privileges, and immunities which usually means ownership of common stock—that you have a right to certain things. If it's yours, you have certain rights. If you talk to the CFO and you ask, "What does it mean if you're an owner?" Well, it means you have a proportionate interest in share value and dividends. If you're an owner, the share price

of the company goes up, the value goes up, and you get a piece of it. We pay a dividend, you get a piece of it. If we go bankrupt, you have a residual claim to assets. When everybody's paid off, if there's anything left, you'll get a liquidation value. That's what ownership is. But, in the organizational and behavioral context, ownership is something a little different.

In practical terms ownership means resolving the agency problem—aligning the interests of employees and shareholders. When you hire people to work for a company, those people have different motives than the people who own the company. The executives of a company have an incentive to pay themselves big bonuses or have very nice company cars because it doesn't come out of their pocket. But the shareholders who own the company have a concern about that.

**BAROCAS: How much stock does a company need to give up to get these ownership behaviors?**

**WHITTLESEY:** Southwest Airlines often is discussed in terms of having a good ownership culture, but only about 13 percent of the stock of the company is owned by the employees. Contrast that with United Airlines, where 55 percent of the stock is owned through an ESOP by the employees (excluding flight attendants), who recently experienced the largest unionization of a private business since 1984. Those two companies receive very different reviews in terms of their ownership culture. At Southwest, it's not just how much stock you own, there's empowerment, there is participation. The employees at Southwest are very significantly empowered beyond what you find at some other airlines in terms of decision making. It's not the amount of stock issued, it's the culture of ownership—information, knowledge, empowerment, and reward.

**BAROCAS: So, why is employee ownership a solution to this issue of motivation and demotivation?**

**WHITTLESEY:** Well, we know some things about employee ownership. There's ongoing research in this area, particularly now because companies are asking the question: "We've been down the incentive compensation path, we've been down the merit pay path, we've

been down the performance management path, now you want to take me down the ownership path. Does it work?" There's a lot of evidence that says, "Yes, ownership behaviors in work organizations improve business results." But there's also evidence that stock-based compensation is a necessary but incomplete strategy. Just giving people stock does not change behavior. Just walking up to a person and saying, "Here's some stock, now act like an owner," doesn't always work. In fact, it very seldom works.

**BAROCAS: Why not?**

**WHITTLESEY:** Because when stock-based compensation plans are implemented, we've added some potential pleasure but we've very rarely caused any pain on the other side. We've very rarely said, "Here's some ownership in the company, in return I want some of your base salary, in return I want some of your benefits. And, now you're going to sweat right along with me on business results." We've said, "Don't worry, here's your salary, benefits, pension, and here's some stock. Now, act like an owner."

**BAROCAS: What else is driving this trend?**

**WHITTLESEY:** We know that intellectual capital accounts for the majority of market value of a lot of U.S. companies. In other words, employees already own most of the assets. Microsoft is worth 15 to 20 times more than its balance sheet says it is. That is, the book value of Microsoft is a fraction of its market value. So where's the rest of the value? Why would somebody pay 15 or 20 times more than what an accountant says the company is worth? If you ask Bill Gates that question, he'll say, "We've got really, really smart people." Therefore, employees own the capital of the company already. When they leave the value of the capital goes out the door.

**BAROCAS: Can you summarize the key points of our discussion?**

**WHITTLESEY:** Organizations have to focus on changing behavior, not motivating employees. Unfortunately, durable and significant behavior changes can't be achieved through centrally administered programs. When we talk about employee ownership and performance management models, the issues are much

broader than our role as HR practitioners. It means getting involved, not just as an HR adviser, but rethinking how managers actually manage. This is a major opportunity for HR practitioners.

Restoring the inherent and available productivity levels in a smart, motivated workforce takes more than a surface redesign of compensation plans. All organizations have tremendously powerful and effective incentive

systems that continuously reinforce and extinguish behavior—hour by hour, minute by minute—outside the purview of HR. But they don't always reinforce the desirable behaviors or extinguish the wrong ones. We need to back up and really revisit what we want people to do and then use a combination of effective performance management and ownership-oriented strategies to get them to do it.