

Lincoln's reward system in practice analysis



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1. What are the similarities and differences between Lincoln's reward system and incentive program for teachers in the NYC study? What other similarities/differences exist between these two organizations in terms of selection, employee retention, job security, etc.

Reward system and incentive program

Similarities:

1. Provided financial incentives. Lincoln adopted piece rate and gave extra bonus to its employees, and NYC trial also offered bonus.
2. Various factors were taken into consideration. In determining an employee's merit rating, Lincoln evaluated four factors separately: dependability, quality, output, ideas and cooperation. The basis for NYC trial's awarding incentives included environment (15%), student performance (25%) and student progress (60%).

Differences:

1. Lincoln provided large amount of year-end bonuses (averaged close to 100% of regular compensation); while the NYC trial only provided very small amount of rewards (an overwhelming majority earn an amount close to \$3000, less than 4. 1% of the average annual teacher salary).
2. Lincoln's rewards were based on measurable aspects, such as their productivity, high quality, cost reduction ideas and individual contributions to the company; while the NYC trail's rewards were based on things that are ambiguous and even uncontrollable by the teachers, such as attendance and exam performance.

3. Lincoln provided bonus to each individual, while the NYC trial provided group-based rewards. Group-based incentive schemes introduced the potential for free riding and adds monitoring and evaluation cost, and most of the schools actually paid teachers equally.
4. Lincoln's reward system was company-wide, while the NYC trial gave a lot of autonomy to each school.

Selection

Lincoln didn't hire many recent graduates, and had a strict policy of filling all but entry level positions by promoting from within the company. There was not enough information for the NYC teachers case.

Employee retention

Lincoln's employees generally enjoyed working there, and its turnover rate was far below that of most other companies. In the NYC teachers case, retention was a measurement of the teachers' behavior under the incentive system.

Job security

Lincoln complemented its rating and pay system with a Guaranteed Continuous Employment Plan, while NYC trials didn't provide such employment security to the teachers.

2. Why has incentive pay been successful for employees at Lincoln Electric, but less so teachers? What have been the employee's reactions to these programs?

At Lincoln, there was a series of other policies that support the incentive program, while in the NYC teachers case, incentive pay stood on its own. Besides the huge bonuses, Lincoln gave employees a strong sense of ownership by promoting from within, respecting employees' feedback, selling stocks to employees and having employees put stencil on every machine they worked on. Workers got paid based on the piecework output, so they were highly motivated to improve their productivity. Lincoln also provided security against layoffs and assure continuity of employment. All of these combined together and created a very strong company culture. For NYC teachers, the effect of the incentive pay was very limited because there was no other policy to support it.

In addition, Lincoln's incentive pay was based on things that are measurable and can be controlled by the employees, while the incentive system for NYC teachers is ambiguous and is based on something that cannot be totally controlled by the teachers. At Lincoln, an individual's share of the bonus pool was determined by a "merit rating" which measures individual performance (based on four separate factors) compared to that of other members of the department or work group, and the merit ratings varies widely. Workers also got paid by piece rate, which was fair for everyone because you work more and you get more. For NYC teachers, although high-quality teaching did improve student performance, student performance was also affected by other factors, such as their background, IQ, etc. And as is mentioned in the case, teachers might lack knowledge of the production function, so even if they wanted to get the incentive pay, they might not know how.

Furthermore, schools were evaluated by their relative performance

compared to their peer schools and all schools in the city, so there is possibility that the teachers in a school work really hard, but they still lagged behind if everyone else works even harder. Therefore, teachers were less willing to adjust their teaching behavior.

Moreover, Lincoln gave rewards to each individual directly and there was difference in term of the amount; while in the NYC teachers case, each school had the power to decide how to distribute the money and it turned out that a majority of teachers get equal amount. Therefore, at Lincoln, workers were willing to give up their breaks to produce more, because this directly affected their earnings. But NYC teachers were less motivated because as long as the school gets reward, very likely they can get the reward without working hard.

Lastly, Lincoln employees were willing to change their behavior for the incentive pay because they valued monetary reward and it was very generous. However, for the teachers, the incentive of teaching students could not be attributed to money. Instead, they might place more values such as responsibility, self-fulfillment.

Based on the analysis, it is not surprising that employees reacted to these programs very differently. At Lincoln, employees generally felt satisfied and were highly motivated to improve productivity. Teacher incentives, however, failed to change student or teacher behavior, and sometimes even decrease student achievement.

3. For each organization (Lincoln and Teachers), how well are its' HR policies aligned with its workforce, culture, and organizational goals?

For Lincoln, its HR policies aligned with its workforce, culture and organizational goals well. Lincoln's strategy was to concentrate on reducing costs and passing the savings through to the customer by continuously lowering prices. To build quality products at a lower cost than its competitors, Lincoln handsomely rewarded employees for their productivity, high quality, ideas and contributions. In this way, employees were motivated to work harder and harder and create more values for company, and the company could then share the increasing profits with its employees as a return. There was a virtuous circle at Lincoln.

In manufacturing industry, efficiency and productivity is almost everything. Lincoln management was aware that competition could help a person realize his/her full potential, so they introduce piece rate as a way to calculate salaries. This system was fair to every worker – you get more if you work harder, so generally everyone was satisfied and motivated. At the same time, Lincoln wanted to make sure that they compete in a positive way, so they make everyone dependent on one another. The HR policies enabled the workers compete with each other and reach their full potential in a team environment.

For NYC teacher trial, its HR policies aligned with its workforce, culture and organization goals poorly. From my perspective, the goal of education is to help students become continuous, lifelong learners and cultivate good personality, and these aspects cannot be measured by the current incentive scheme. Evaluating teachers based on the exam scores and attendance of the students is not comprehensive.

In addition, I think it is worth debating whether such competition should be applied to schools or not. Competition might actually make the schools focus on some aspect while neglecting others. Also, we should assume that all teachers want their students to be well-educated, and to achieve this goal, teachers should cooperate with each other and trust each other. Therefore, the incentive system might do more harm than good.

In summary, HR policies should never stand alone. It should be aligned with its workforce, culture and organizational goals.