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CONTENTS

Conceptually, a central aspect of "strategic human resource management" is the integration of the HR function with strategic decision making. Little is known, however, about the factors that influence integration or its subsequent effects. Using data from 148 diverse organizations, the authors found that strategic type and whether or not top management views employees as strategic resources were associated with integration, but that labor market munificence and organizational growth were not. The results concerning the relationship between integration and performance were surprising; integration was associated with a lower evaluation of the HRM function by top management.

This study examines the impact of strategy, core competence, and involvement of HR executives in strategic decision making on the refinery managers' evaluation of the effectiveness of HR and on refinery performance among 86 United States petrochemical refineries. Survey results indicated that higher involvement of HR in organizational strategy was strongly related to perceptions of HR effectiveness, and that the relationship was strongest to the extent that refineries pursued a product innovation strategy and viewed skilled employees as their core competence. HR involvement was unrelated to refinery performance but was actually negatively related when refineries emphasized efficient production as their core competence.

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Danielle Lacourciere, *Production Editor*

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EDITOR'S NOTE

It has been about 15 years since the concept of "strategic human resource management" began to gain popularity. The concept has gone through an evolution. In the mid-1980s, the concept was a fuzzy image of what it could become; and broad, generic, and ambitious statements were proclaimed offering hopes for a new and brighter future for HR as a strategic partner. In the early 1990s, many firms began to turn the ideas into practice. HR professionals moved beyond administrative work and began to link their work to business strategy. This work had some false starts—situations in which HR professionals could not operationalize the ambitious goal of being strategic partners. It also included many wonderful cases in which HR professionals impacted individual and organizational performance by making strategy happen, by building more capable organizations, and by upgrading individual competencies.

This issue of the journal, while not a special-topic issue, indicates that we are now entering a new phase in the evolution of strategic HR. We are now seeing attempts to create theory and do research on the work being done within industry. Collectively, the articles in this issue suggest that strategic HR is no longer an ideal or an experiment. Academics are now collecting data to better understand it; CEOs are building the concepts into their vocabulary and actions; and consultants are building models for making organizations more effective.

The academic work of strategic HR includes empirical work as evidenced in two articles. The study by Bennett, Ketchen, and Schultz using data from 148 organizations shows that when managers believe in employees as strategic resources, HR integration is more likely to happen. The study by Wright, McMahan, McCormick, and Sherman draws on data from 86 petrochemical refineries to show that when HR is involved in strategy, line managers rate the work of HR higher. These empirical studies also point to one of the difficulties of empirical research: In some ways the results are ambivalent. Integration of HR practices does not affect performance as expected in one study, and involvement in HR was negatively related to efficient production as a core competence in the other. Clearly more research on strategy/HR linkages is required to codify and generalize practices from one set of firms to another.

Academics are also commencing to provide theory to the HR phenomenon. The Barney and Wright article begins to extrapolate concepts from institutional economics to explain why HR practices create competitiveness. Over time HR theorists will be more able to develop unique theories to explain why HR disciplines explain HR as a strategic partner.

The Bento and White article shows that HR research needs to continue to focus not just on organizational level analyses (as in the three articles introduced above), but also on individual issues. This article shows that the values of an individual affect the extent to which incentives drive individual behavior and performance. The work encourages readers to remember the importance of the individual in accomplishing HR work.

The articles by Singh and by Turnley and Feldman show how HR research helps make sense out of the impact of downsizing—a process which has gone on in many corporations over the last decade. These two articles

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suggest again that phenomena occurring in business need to be studied seriously to detect patterns and lessons that can be generalized elsewhere. Both articles, with different samples, show that psychological contracts are often violated in times of downsizing and economic uncertainty. They both suggest that HR practices, if managed effectively, can mitigate the loss of employee commitment.

The CEO interview with Bruce Rohde, recently appointed Chief Executive Officer of ConAgra, is a wonderful example of how CEOs are now weaving HR issues into their daily thinking. He knows that to continue the enormous success of ConAgra, he must create an even more competitive organization with increasingly competent individuals. Human resources play a major role in accomplishing his vision.

The consultant perspective on strategic HR is well articulated in Robert Schaeffer's book, *High Impact Consulting.* The review by Joe Ryan shows that Mr. Schaeffer draws on his extensive experiences to illustrate how operating managers can and should partner with consultants to build organization capability and individual competence.

Collectively, these articles may indicate that the early concept of strategic HR which affected behaviors in the early 1990s is now becoming more institutionalized. The research, theory, CEO experience, and consultant models demonstrate that HR no longer needs to ask to be a partner, HR must now develop more refined analytical models and practices to do so.

Dave Ulrich
Editor

PARTICIPANTS' VALUES AND INCENTIVE PLANS

Regina F. Bento and Lourdes F. White

Incentive plans are designed to motivate participants to pursue what is valued by an organization. This article discusses how values may influence the design of incentive plans and the success of their implementation. In situations where the incentive plan fits participants' values, the authors predict a process of mutual reinforcement. When values and incentives collide, they propose two possible yet conflicting outcomes: the "carrot effect" and the "snubbed carrot effect." They conclude by addressing the implications of fit and misfit for research and practice. © 1998 John Wiley & Sons, Inc.

Introduction

Organizations use incentive compensation plans to define whom, what, and how they will financially reward or punish. Incentive plans therefore serve as contracts that signal to employees participating in the plan the actions and results that are expected from them.

Plan participants, however, are also exposed to another set of signals about what is good and bad, acceptable and unacceptable, desirable and undesirable in their work environment. This other set of signals comes from the value system of plan participants. In this context, a value can be viewed as "a type of belief, centrally located within one's total belief system, about how one ought or ought not to behave, or about some end-state of existence worth or not worth attaining" (Rokeach, 1972, p. 124).

The two sets of signals may point in the same or to different directions with significant implications for the success or failure of incentive plans. The existing literature, unfortunately, has not adequately addressed the assessment and implications of the convergence (fit) or divergence (misfit) of these signals. Practitioners, especially those involved in the design and implementation of new incentive plans, have long been aware of the importance of reward systems in communicating corporate values (Esquibel, Ning & Sugg, 1990; Kanin-Lovers, 1987; White, 1985). One of the key challenges they currently face is the development of incentive plans that are consistent with the organizational context, including cultural, strategic, and financial objectives (White & Fife, 1993).

Practitioners' calls for research in this area have not yet been systematically pursued. In spite of the popularity of the concepts of cultural values and of incentive plans, there is only limited research that even relates one to the other (e.g., Kerr & Slocum, 1987; Lawler, 1990; O'Reilly, 1989). A comprehensive study by the National Research Council (1991) warned that too little attention is paid to the effects of organizational context, including employee values, on the results of incentive plans. Milkovich and Newman (1993) also

In spite of the popularity of the concepts of cultural values and of incentive plans, there is only limited research that even relates one to the other.

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concluded that "unfortunately, little research has been done directly on the relationship between pay systems and the culture and values of an organization" (p. 18).

This article contributes in two significant ways to the understanding of participants' reactions to incentive plans. First, it explores the value-driven nature of preferences for different features of incentive plans. Second, and more importantly, it explores the consequences of fit and misfit between the values embedded in incentive plans and those held by plan participants. We argue that the presence or lack of fit between the two sets of values may have a vital effect on the practical results achieved by those plans and on the level of the participants' satisfaction with the reward system.

In examining situations of fit, we go beyond the point of plan implementation, extending our analysis to discuss the dynamics of mutual reinforcement between participants' values and plan incentives in the period following plan adoption. When exploring the effects of misfit, the human resource (HR) professionals and researchers are warned about possible exceptions to previous assumptions in the literature (e.g., Kerr & Slocum, 1987; Lei, Slocum, & Slater, 1990) that the incentives provided by the pay plan will send signals strong enough to bring about a change in values—the proverbial "carrot effect." In practice, values may prove too resilient to be so easily changed. We argue here that human resource professionals and researchers need to be aware that, when pay plan and values collide, the values held by plan participants may be more powerful than the incentive plan in determining their decisions. In other words, plan participants may "stick to" their values and the behaviors supported by those values, shunning the incentives provided by the plan. We call this outcome the "snubbed carrot effect."

In the next section, we provide examples of how values may be reflected in particular aspects of incentive plans. This is followed by a series of propositions regarding how fit and misfit between participants' values and incentive plans can affect the outcomes of plan implementation, as well as participants' satisfaction with the plan. Finally, we discuss the implications of these ideas for research and practice.

Values and Incentive Plans

A value is "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence" (Rokeach, 1973, p. 5). These preferences are best revealed in practice by the "trade-offs people make between various ways of behaving in specific situations" (Rousseau, 1995, p. 50). In this section we explore how some basic "enduring beliefs" and preferences about modes of conduct, trade-offs, and intended outcomes are translated, consciously or unconsciously, into different features of incentive plans. Using three sets of dualities—equality versus inequality, certainty versus uncertainty, and cooperation versus competition—we provide examples of how values affect preferences for certain incentive plan features over others. Later, we discuss how plan features interact with the values of plan participants to influence their reactions to the plan.

A duality is "an issue that cannot easily be resolved, because contradictory aspects of the issue are inevitably present and are simultaneously desirable and undesirable" (Martin, Feldman, Hatch, & Sitkin, 1983, p. 447); it contains, therefore, two opposing "truths." Dualities are particularly helpful in the study of incentive plan design, since such design requires many choices involving opposing alternatives that can be justified on the basis of opposing values.

Our selection of three dualities is not meant to imply that they contain the only values that should be considered in assessing fit. Their selection was based on the fact that they have received considerable attention in the literature on cultural values, particularly as they influence workplace behavior (Hofstede, 1984; Martin, 1992; Schein, 1992). These values have also been highlighted in the management accounting literature where they have been related to preferences for certain characteristics of control systems (e.g., Birnberg & Snodgrass, 1988; Chow, Kato & Shields, 1994; Ueno & Wu, 1993).

It is not our purpose to engage in a theoretical discussion of all possible values that are important for an exhaustive assessment of fit. We are simply using the three value dualities to exemplify how the choice of incentive plan features may, consciously or unconsciously, reflect value preferences rather than self-evident truths.

Equality Versus Inequality

Some deeply ingrained values affect expectations about the "normal" spread of performance potential in the workplace, in terms of the magnitude, source, and consequences of differences in employee skills and abilities. These values may fall on either side of the equality versus inequality duality. The "equality" side emphasizes similarities over differences. People are believed to be intrinsically similar in their performance potential: If they exert the same level of effort, and benefit from equal opportunities for training and experience, they can be expected to reach roughly the same high levels of performance. The "inequality" side stresses differences. People are perceived as having a wide range of stable differences in their abilities and skills, which follow a normal curve distribution; those differences are expected to remain even after employees are exposed to various opportunities for learning and skill acquisition, leading to large spreads in performance.

Equality and inequality values underlie many choices made during the design of incentive plans. As shown in Table I, this duality affects several issues in plan design and implementation.

For example, equality beliefs would lead hierarchies to be seen as mere "administrative conveniences" (Hofstede, 1984), based on levels of experience and training rather than inherently significant differences in skills and potential. Consequently, low power distances would be justified, and hierarchical differences would not need to be reinforced through the pay system. Salary levels and bonus formulas would relate only loosely to hierarchical position; instead, they would be based on objectives negotiated through participative goal-setting (Shields & Young, 1993) and decentralized plan decision making. The range of pay differentials would depend on the spread in the achievement of targets such as expense control, inventory management, product quality, productivity, and employee morale.

Equality and inequality values underlie many choices made during the design of incentive plans.

It is possible, therefore, for incentive plans based on equality beliefs to yield small or large pay differentials. Under equality beliefs, HR professionals would not take small pay differentials as a sign that the plan did not work. If target setting, performance appraisal, and allocation of rewards proceeded according to plan, HR specialists would welcome the narrow differentials in performance and pay as a sign that the plan was able to motivate participants across the board. In situations where the plan produced large pay differentials, reflecting large spreads in actual achievement, equality beliefs would lead HR professionals to consider the need for changes in other areas that affect performance, such as training, selection, improved communications, and job design.

In contrast, assumptions of inequality would justify high power distances. Hierarchies would be perceived as the rightful institutionalization of significant and stable differences among people, with the most "worthy" at the top. Plan design and goal-setting would thus be centralized in the hands of an elite group of experts and top management; salaries, bonus formulas, and other in-

TABLE I **Equality Versus Inequality Values and Incentive Plans.**

Incentive Plan Issue	*Equality*	*Inequality*
Plan decision making and implementation	Low power distances, participative goal-setting, decentralized decisions	High power distances, centralized decisions by "elite" group
Link between pay and hierarchical levels	Loosely linked	Closely linked
Desirable range of pay diversity	Small performance differentials lead to small pay differentials	Large performance spreads lead to large pay differentials

centives would closely reflect and reinforce one's position in the pecking order of the organization. Large pay differentials would be the expected result of naturally large spreads in performance (Whittlesey & Maurer, 1993). Under inequality beliefs, if the plan resulted in small pay differentials, HR professionals would see this as a failure to capture existing differences in performance, possibly due to problems in the target setting and performance appraisal processes.

Certainty Versus Uncertainty

Certainty values imply that plan participants should be able to predict (with reasonable accuracy) how their actions will lead to desired rewards.

The second duality has to do with the optimal variability of the environment in which people operate (Hofstede, 1984), and reflects core beliefs about the relationships between individuals and organizations (Schein, 1992). For those who believe in the "certainty" side of this duality, a higher degree of predictability in the transactions between organizations and their employees is expected to foster productivity, efficiency, and stability. For example, certainty values would support strategies that preserve predictability and mutual trust even in the face of current trends toward downsizing and cost reduction (Cameron, 1994; Mishra & Mishra, 1994).

For those on the "uncertainty" side of the duality, unpredictability is perceived as necessary for keeping employees "on their toes," challenging them to strive, innovate, take risks, and exercise their curiosity and creativity. "Rightsizing" is expected to lead not only to workforce reduction and cost cutting but also to increased productivity and motivation on the part of the remaining employees.

Table II illustrates some of the influences that the certainty versus uncertainty duality may exert on incentive plan design and implementation.

Certainty values imply that plan participants should be able to predict (with reasonable accuracy) how their actions will lead to desired rewards. In terms of HR practice, these values would indicate the need for incentive plans to provide clear guidelines regarding, for example, how base pay will vary over time (such as objective rules about pay variation linked to merit, length of tenure in position, and promotions) and how incentive pay will be calculated as a function of performance (e.g., formula-based bonuses). Base salary would represent a relatively large percentage of total pay (Chow, Merchant, and Wu, 1993); cost of living adjustments would be provided on a regular basis; and bonuses would be linked to achievable budget targets in order to increase management commitment and decrease control costs (Merchant, 1990). HR professionals would assume that relatively small rewards linked to highly achievable targets are more motivating than potentially large bonuses for reaching "stretch targets."

Under certainty values, organizations would be expected to shield employees from environmental uncertainty (Milliken, 1987), following the classic "controllability principle"—i.e., that employees should not be held accountable for factors outside their control (Solomons, 1965). This principle, which is extensively discussed in the management control literature (e.g., Demski, 1976; Merchant, 1989), implies that HR professionals should make sure that the incentive plan includes provisions to remove the effect of uncontrol-

TABLE II **Certainty Versus Uncertainty Values and Incentive Plans.**

Incentive Plan Issue	*Certainty*	*Uncertainty*
Degree of objectivity in determining total pay	High (objective rules, formula-based bonuses)	Low (subjective process)
Percentage of total pay at risk	Low (mostly base pay)	High (significant variable pay, stock bonuses)
Standard tightness	Achievable budget targets	Tight challenging standards
Accounting for uncontrollable factors in performance evaluation	Extensive use of controllability filters	No specific provisions for controllability filters

lable factors when evaluating performance (Chow, Merchant, & Wu, 1993; Young & Selto, 1993). Uncontrollable factors may include the following: scheduling problems caused by other organizational units; actions taken by competitors, suppliers, or regulators; changes in the economy or consumer behavior; acts of nature, and so on (Chow, Shields, & Wu, 1994; Merchant, 1987, 1989).

Adjustments for uncontrollable factors may be implemented in practice by the use of "controllability filters" (Demski, 1976; Merchant, 1989). One common filter is the use of relative performance measures and benchmarking (Janakiraman, Lambert & Larkee, 1992; Maher, 1987). This filter allows the comparison with the performance of peers, inside or outside the organization, who supposedly have had to cope with the same uncontrollable factors. Another typical controllability filter consists of the application of "revised scenarios," in which flexible budgets are used to recalculate performance variances in light of what actually happened (Horngren, Foster, & Datar, 1994).

In contrast, the uncertainty side of the duality would lead to incentive plans with an opposite set of features. Innovation, risk-taking, and motivation would be increased by attaching significantly high rewards to end results, letting plan participants figure out on their own how to accomplish those results and cope with uncontrollable factors, and holding them accountable for achieving plan targets. HR professionals would not focus on protecting plan participants from environmental uncertainty; rather, the key issue would be to offer incentives large enough to make it worthwhile for employees to be successful in coping with such uncertainty. Lured by the promise of substantial rewards, participants would do their best to anticipate and creatively respond to changes in the environment.

Accordingly, uncertainty values would justify plan features such as the following: larger percentages of pay at risk; rewards in the form of stock, rather than cash; performance targets set at very challenging levels and linked to the prospect of commensurably large rewards (Simons, 1988; Chow, Shields & Wu, 1993); and no special provisions for the use of "controllability filters" in performance appraisal and allocation of rewards.

Cooperation Versus Competition

This third duality refers to preferences for one of two modes of interaction among organizational members. Such preferences are based on beliefs about which mode of interaction is more conducive to the achievement of overall organizational goals (Deutsch, 1949; Tjosvold, 1984). One side of the duality would regard cooperation as the best way to channel individual effort into collective purpose and action. The other would believe that organizational goals are more likely to be achieved through competition among self-interested individuals or teams, all of them putting out their best effort to become "the winner."

Table III shows some main areas of impact of the cooperation versus competition duality on incentive plan design and implementation.

Cooperative values support incentive plans that reward participants who subordinate their particular interests to the collective good; cooperation also prizes harmonious vertical and horizontal interpersonal relationships.

Cooperative values support incentive plans that reward participants who subordinate their particular interests to the collective good; cooperation also prizes harmonious vertical and horizontal interpersonal relationships. Valuing cooperation entails two key practical HR implications. First, cooperative values justify the use of absolute measures of performance, which compare results against pre-established goals. Second, cooperative values lead to the avoidance of direct comparisons among individuals or among groups. As Kohn (1992) characterizes it, cooperation is an "arrangement that is not merely noncompetitive but requires us to work together to achieve our goals" (p. 6). Therefore, rewards may be distributed, for example, through some form of profit sharing, and calculated primarily on the basis of the results achieved by the whole corporation. Individual and group performance may still be evaluated separately, but not used to compare one individual or one group against another.

In order to preserve reasonably smooth interpersonal relationships under cooperative values, the evaluation process should provide "face-saving" procedures, thus avoiding embarrassment, jealousy, resentment, and other threats to a cooperative spirit. In this context, the role of the evaluator is primarily that of a mentor, and the emphasis in the evaluation feedback is on encouraging the professional development of plan participants. As described by Kunda (1992), cooperative beliefs

TABLE III Cooperation Versus Competition Values and Incentive Plans.

Incentive Plan Issue	*Cooperative*	*Competitive*
Performance measures	Absolute measures	Relative measures, ranking, and forced performance spreads
Evaluation process	Avoidance of interpersonal and intergroup comparisons, to preserve smooth relationships	Structural competition; encouragement of win–lose comparisons, zero-sum tournament models
Role of evaluator	Evaluator as a mentor, emphasis on professional development, and face-saving procedures	Evaluator as a judge, emphasis on identifying "winners" and "losers"

require that even those who are evaluated as "failures" should be able to preserve their self-esteem and loyalty, as well as the respect of their peers.

On the other hand, when competitive beliefs prevail, plan participants are expected to strive not only to do their own best, but also to outperform their peers. This is consistent with performance appraisals that use ranking and forced spreads (relative performance measures), creating zero-sum tournament models (Nalbantian, 1987): when one person or team "wins," another has to "lose." The unit of performance measurement may be either the individual or the group; the distinctive feature is that "structural competition" (Kohn, 1992) is used to enable comparisons within and across groups.

Competitive values lead to laurels and visible recognitions for the winners, while the losers are challenged to strive harder to become themselves winners next time around. Thus incentives may be viewed as either reward or punishment. The role of the evaluator is to serve as a judge, handing out assessments of success and failure. Under competitive beliefs, more emphasis tends to be placed on formal communication and coordination in both goal-setting (e.g., during budget preparation) and evaluation processes, to ensure that conflicting goals will not hinder the achievement of overall organizational goals (Ueno & Wu, 1993). If the competitively pursued targets are well formulated, they should serve as Adam Smith's (1937) "invisible hand," guiding the efforts of individuals and teams so that the aggregate performance of the organization ends up being higher than if they had tried to cooperate.

Cultural Fit and Misfit of Incentive Plans

The values embedded in incentive plans and those held by plan participants may converge ("Fit" scenario) or diverge ("Misfit" scenario).

Fit Scenario

We propose that a dynamic process happens in the Fit scenario. When the plan is first implemented, participants perceive it as rewarding behaviors that are congruent with their own value system. This initial fit will set in motion a process through which plan and participants' values will reinforce each other over time.

Consider, for example, that the duality in question refers to inequality versus equality. Let's assume, further, that the incentive plan is driven by equality values and contains features intended to foster participation, low power distances, decentralized decisions, and loose links between pay and hierarchical levels. If plan participants also hold equality values, the implementation of such a plan will set in motion a reinforcement process, through which the egalitarian values of participants will, after a while, become even stronger. In turn, the egalitarian values held by participants will themselves support the kinds of behaviors and outcomes targeted by the plan, increasing the likelihood that the plan will reach its intended effects or even surpass them.

HR specialists and others involved in plan implementation may find that the plan's ability to influence participants' behavior goes well beyond what could be reasonably expected from the extrinsic rewards being offered. Participants will be so naturally inclined to respond to the plan that even small incentives may lead to what would otherwise be seen as disproportionately large effects. This will, in turn, bolster the perception that the plan is based on the "right" beliefs, thereby accentuating the equality features of the plan, as it is formally and informally implemented over successive cycles of evaluations and rewards.

A similar process may happen in regard to other dualities relevant to incentive plans (certainty versus uncertainty, cooperation versus competition, or other sets of values), as summarized in the following propositions:

Proposition (*1*): In scenarios of fit between plan and participants' values, one will reinforce the other.

Proposition (*1a*): The behaviors and beliefs in the value system of plan participants that are rewarded and valued by the incentive plan will increase in frequency and intensity over time. Encouraged by the plan, participants' beliefs will lean even more strongly toward their favored side of a given duality.

Proposition (*1b*): The values of plan participants will reinforce the intended effects of the incentive plan on those behaviors and beliefs which are deemed desirable by both the participants and the incentive plan. Supported by the values held by plan participants, the incentive plan will be more likely to attain, or surpass, its intended results.

Proposition (2): The stronger the fit between plan and participants' values, the higher will be the satisfaction of plan participants with the pay system.

Misfit Scenario

Misfit scenarios are those in which plan values collide with the shared beliefs of plan participants. These situations can be created either inadvertently or by design, in an attempt to use the incentive plan to change the participants' values. Predicting the ensuing results is less straightforward here than in the "fit" scenario. For example, when a plan based on inequality beliefs is superimposed on the egalitarian values shared by plan participants, two effects are possible.

The first possible effect is that the plan will result in a change in values. Based on the literature on learning (Bandura, 1977; Skinner, 1971), motivation (Vroom, 1964), and agency theories (Demski & Feltham, 1978), we can predict that the incentives will lead participants to change their values about the significance and desirability of hierarchical differences and privileges. They may take actions and strive for results that will enable them to enjoy the increases in pay, status, and perks promised in the plan (Kerr & Slocum, 1987; Lei, Slocum, & Slater, 1990). This "carrot effect" may, over time, weaken the initially egalitarian values of plan participants and eventually lead them toward inegalitarian values.

From the perspective of the HR specialist, this change in values and consequent "solution" to misfit problems may be achieved through any of the three main mechanisms for transmission of cultural values (Harrison & Carroll, 1991): the selection of future employees whose values best fit the plan assumptions, the use of vigorous socialization, and the turnover of those who leave the organization voluntarily or through attrition (Chatman, 1991). In such cases, the plan will achieve its intended results.

The "carrot effect" is consistent with the view, so popular in the 1980s, that cultures and the values embedded in them "can be consciously designed and manipulated" by managers for the sake of improving organizational performance (Barley & Kunda, 1992, p. 383). According to this view, it is management's responsibility to design, shape, and change the organization's cultural values (Peters & Waterman, 1982).

On the other hand, another effect may happen. The literature on values has consistently emphasized the permanent nature of values (in contrast with attitudes), as well as their stability and resilience to short-term, limited change efforts (e.g., England, 1967; Rokeach, 1973; Schein, 1992). In practice, HR specialists are well aware of numerous cases of organizations that attempted to change their values by adopting new incentive systems, only to find out that plan participants simply ended up manipulating the system to

The literature on values has consistently emphasized the permanent nature of values (in contrast with attitudes), as well as their stability and resilience to short-term, limited change efforts.

make it conform to their own old preferred ways of behaving (e.g., Ehrenfeld, 1992).

In some instances, participants may decide to adopt behaviors that are actually *opposite* to what is intended by the incentive plan. Lawler (1971), for example, provides evidence that factory workers dissatisfied with an incentive plan designed to increase productivity responded by intentionally *restricting* output. Even though there have been several studies that documented such unintended reactions to incentive plans, they have not explicitly linked those reactions to the values held by plan participants (George, Brief & Webster, 1991).

We argue that the incentives provided by a new incentive plan may not be strong enough to go against the grain of plan participants' deeply held shared beliefs, values, and assumptions. The incentives may be shunned, in what we call here the "snubbed carrot effect."

One important implication on the snubbed carrot effect for HR specialists is that the likelihood of successful plan implemation may not depend on how good, carefully designed, or apparently rational a plan may be.

Plan participants may simply try to distort and subvert the implementation of the incentive plan. Instead of being lured by the promised rewards into changing their own behaviors and values, they "re-shape" the practice of the plan, in formal or informal ways, to align it with their values.

For example, if the participants hold strong egalitarian beliefs, but the plan sharply reinforces differences in pay, status, and perks, participants may manipulate plan implementation so as to reduce those differences. This manipulation may affect various aspects of the performance evaluation and reward process, sending warning signals to the HR specialist that plan implementation is not proceeding as originally intended. Participants, for instance, may counteract the inegalitarian effects of the plan by inflating performance ratings across the board, or even circumvent the effects of forced-ranking performance evaluations by creating informal rotation systems, where they take turns as top performers (Bento & Ferreira, 1992). In practice, the carrots in the plan are not enough to lure participants away from their deep-seated values. Instead, participants may not only "snub the carrots," but actually pull the plan closer and closer to their own views over several cycles of evaluations and rewards until the plan, as implemented, fits their values . . . or breaks down.

The snubbed carrot effect may thus explain some of the situations in which incentive plans do not seem to work, become dysfunctional, or are discarded. It is interesting to note that this effect may happen regardless of how "rational" the incentive plan may seem. For example, Ansari and Bell (1991), in their study of the effects of cultural values on accounting control systems (including formal and informal incentives), concluded that "the acceptance of a control system rests, therefore, *not* on how rational it is, but on how well it reflects the value system of its participants and the belief system within which it operates" (p. 24).

One important implication of the snubbed carrot effect for HR specialists is that the likelihood of successful plan implementation may not depend on how good, carefully designed, or apparently rational a plan may be. If a plan goes against deeply held participants' values, it may face subtle or overt challenges throughout its implementation. The HR specialist should be prepared to anticipate, detect, and react to those challenges.

The carrot and snubbed carrot effects may arise from misfit along any duality relevant to incentive plans, as captured in the following propositions:

> *Proposition* (3): In scenarios of misfit between plan and participants' values, the conflicting signals sent by each will set in motion a change in either of the following directions:
>
> > *Proposition* (*3a*): If the incentives provided by the plan are strong enough to override the influence of participants' values, the plan will prevail. Some plan participants will adjust their behaviors and beliefs to reap the promised rewards; others, who cannot be swayed by the incentives, will leave the organization; and the plan will help attract and retain other people whose values match its own. Over time, the incentive plan will move the values held by participants toward the plan's favored side of each of the dualities (the carrot effect).
> >
> > *Proposition* (*3b*): If the incentives are not enough to induce plan participants to move away from the behaviors and beliefs ingrained in their value system,

participants' values will prevail. Plan participants will disregard or subvert the incentives provided by the plan, thereby weakening or reversing its intended results (the snubbed carrot effect).

Proposition (4): As long as there is misfit between plan and participants' values, plan participants will be dissatisfied with the pay system.

Proposition (*4a*): Under the carrot effect, dissatisfaction will continue until a change in participants' values brings about a new fit with the incentive plan.

Proposition (*4b*): Under the snubbed carrot effect, dissatisfaction will continue until the enactment of the plan is (formally or informally) altered enough to fit the values of plan participants.

Conclusion

In the 1970s and 1980s, an ever increasing number of organizations jumped onto the bandwagon of paying for performance, despite conflicting evidence about the influence of incentive plans on individual or firm performance (Guzzo, Jette, & Katzell, 1985). In the 1990s, the jury is still out in regard to the ability of incentive plans to deliver their intended results in the short or long term (Kohn, 1993). This article proposes that these mixed results can be explained at least in part by the fact that incentive plans are not implemented in a vacuum. We argue that the effects of plan incentives depend on their interaction with another strong set of forces: the enduring values of plan participants.

The notion that "fit matters" has an intuitive appeal. One might wonder, therefore, why incentive plans are so often implemented, in practice, without explicit consideration of how they might reinforce or collide with preexisting values of participants. This is not so surprising, however, if one realizes that there is very little in the literature to help HR specialists with some very practical issues: what types of fit matter, how to assess fit, what to expect as a consequence of different degrees and types of fit.

This article is an initial step in the long journey toward the answers to these questions. It proposes that there are many crucial features of incentive plans which are not self-evident but reflect value-driven choices; exemplify how certain underlying values are translated into specific plan features; offer HR specialists the language of "dualities" to articulate and compare the values of plan participants with the values embedded in incentive plans; and explore the possible consequences of fit and misfit between those two sets of values.

In situations of fit, we predict that participants' values will leverage the effects of plan incentives, leading to more than proportional effects. In other words, seemingly modest incentives might be sufficient to yield large results in desired behaviors and satisfaction with the plan. In situations of misfit, we warn HR specialists of possible trouble. Plan incentives may be able to override the influence of opposing participants' values (the carrot effect), but this may take longer and require more resources than expected. Worse yet, participants' values may be strong enough to lead them to shun plan incentives, in what we call the snubbed carrot effect: They may manipulate plan implementation, in overt or subtle ways, so that in practice the plan is either forced to adapt to their values or is abandoned altogether.

Furthermore, when an incentive plan is intentionally designed to bring about a change in participants' values, we argue that HR specialists should be prepared to face significant dissatisfaction with the plan. This dissatisfaction will last until the misfit is resolved, either by an eventual change in participants' values (in response to the carrot effect) or by formal or informal changes in the plan (due to the snubbed carrot effect).

Given all these predictions, *what can HR professionals do? First,* we recommend that, starting in the earliest design stages, they devote particular attention to the degree of fit between participants' values and the various features incorporated in the incentive plan. This will require efforts to identify the values of participants and to unearth the values underlying incentive plan issues. The dualities examined in this article should help guide those efforts by providing both a vocabulary and some key dimensions for comparing the two sets of values.

Second, when allocating resources to implement the incentive plan, HR professionals should take into consideration the level of fit or misfit that has been incorporated into the plan. In a fit scenario, resources (financial and otherwise) might be saved through a careful evaluation of the leverage expected from the strength of pre-existing participants' values. In contrast, if plan designers decide to use the plan to change those values, they should be prepared to invest additional resources to pay for the successful resolution of this intentional misfit. When participants' values push them in one direction, and the carrots in the incentive plan try to pull them in a different one, this tug of war will require substantial reinforcements in order for the plan to prevail. This means that the incentives will have to be commensurate to the level of misfit and will likely have to be sustained over several cycles of evaluations and rewards. The carrot effect takes time and demands an ongoing commitment on the part of the organization. In the meantime, given the predicted dissatisfaction of plan participants, further resources must be invested to handle the potentially high costs of voluntary and involuntary turnover, as well as the costs of continuously monitoring plan implementation in order to detect and respond to the warning signals of plan mutation due to the snubbed carrot effect.

Third, HR professionals should note that the importance of values implies that the success of plan implementation may be significantly influenced by education and socialization efforts. Even when there is a good fit between the values underlying the plan and the values of plan participants, this fit may not be self-evident. Throughout plan implementation, HR professionals should make a special effort to communicate how the plan features celebrate the values of participants and how the plan promotes the goals that are dear to them. In situations of misfit, HR professionals should invest heavily in education and socialization efforts. In a war of values, financial weapons must be combined with more in-depth, far-reaching social and psychological instruments for sustainable learning of new values and behaviors. This type of learning is obviously not easy and requires a deeper understanding of the process of value change before organizations can effectively act as value-socializing agents (Rokeach, 1973).

Third, *HR professionals should note that the importance of values implies that the success of plan implementation may be significantly influenced by education and socialization efforts.*

Further empirical research is now needed to explore the complex relationships between values and incentive compensation. In the discussion of fit and misfit scenarios, we attempted to indicate the expected general direction of shifts in participants' and plan values over time. The current state of theory development in this area does not allow us to make more specific predictions regarding magnitude of change; the time required for different effects to take place; the factors that explain *when* and *why* misfit will lead to either the carrot or snubbed carrot effects; or *how,* exactly, the dissatisfaction caused by misfit will set in motion the forces that ultimately reestablish fit through either of those effects.

Particular effort should be made in future studies to identify other variables that may moderate the relationships proposed in this article. For example, the effects of fit and misfit may be influenced by the following variables:

1. individual characteristics that affect identification with organizational values (e.g., age, gender, risk preferences, level of education, experience, hierarchical level, and tenure), or ability to voice opposition, subvert the plan, or leave the organization if dissatisfied with the plan;
2. organizational factors such as size, stage in organizational life cycle, technology, and linkage between plan and other human resources and value change initiatives (Harrison & Carroll, 1991); the extent to which the incentive plan is congruent with organizational strategy, structure, and process (Lawler, 1990); the existence of similar plans inside or outside the organization; strength of incentives provided by the plan; the strength of the values shared by plan participants (Gordon & DiTomaso, 1992); the degree of cultural homogeneity within the organization (Martin, 1992; Sackmann, 1992); and similarity to industry or occupational values;

3. environmental conditions such as the effect of the economic climate on one's ability to control results; job market conditions; societal values; and industry-related risks (Gordon, 1991).

This type of research has substantial practical relevance, particularly for organizations undergoing mergers or acquisitions, facing increasing work force diversity, and operating in different countries or industries.

Awareness of the intended and unintended effects of fit and misfit should advance both the theory and practice of incentive plan design and implementation. Organizations invest enormous resources (financial and otherwise) in trying to promote organizational change through new incentive plans. Understanding the dynamics of fit and misfit between incentives and values should increase the likelihood that these resources will indeed lead to the intended results.

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ENDNOTE

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