

Motivate People to Work—Not Just to Earn a Bonus

Robert Reinfuss (2018)

Most bonus systems lose their effectiveness within two years of implementation. Over time, their motivational impact fades, often constraining performance and limiting organisational growth. This raises a fundamental question: why do systems designed to improve results so frequently produce the opposite effect?

When Incentives Undermine Performance

At first glance, performance-based bonuses appear rational. They align pay with outcomes and reward achievement. In practice, however, they often reshape behaviour in unintended ways.

Employees quickly learn that ambitious targets may not be in their best interest. Lower targets require less effort to achieve bonus thresholds, which can encourage individuals and teams to moderate their performance. A common pattern emerges: delivering just enough—typically 95–100% of the target—to secure the bonus, but not exceeding it.

Managers are subject to similar incentives. Under pressure from their teams, they may resist stretching targets, leading to a shared tendency to normalise under-ambition. Over time, this dynamic can evolve into what might be described as a “conspiracy of mediocrity,” where both managers and employees implicitly agree to avoid pushing performance boundaries.

Example

In one manufacturing plant, the removal of a bonus system resulted in an initial drop in net salaries. However, no employees resigned, and productivity increased by 3%, continuing to grow steadily in subsequent years.

A key insight emerges: bonuses tend to motivate employees to pursue the bonus itself, rather than the underlying work. Work becomes a means to an end, rather than a source of engagement or improvement.

The Hidden Cost: Managerial Attention and Complexity

Bonus systems do not only affect frontline behaviour—they also consume significant managerial attention.

Designing and maintaining incentive schemes requires time, data, and continuous adjustment. Because no bonus system is perfect, organisations often respond to emerging issues by increasing complexity—adding conditions, thresholds, and exceptions. This rarely solves the underlying problem and instead creates a system that is difficult to understand and manage.

In practice, leaders may spend disproportionate amounts of time calibrating bonuses rather than improving operations.

Example

An owner of a large company spends approximately 20 hours per month calculating employee bonuses, while simultaneously reporting a lack of time for strategic discussions with management.

The opportunity cost is substantial: time spent managing incentives is time not spent improving processes, developing people, or strengthening the business.

Short-Term Gains vs. Long-Term Improvement

A common assumption is that linking bonuses to improvement metrics—such as quality or efficiency—can mitigate these issues. In reality, this often introduces new distortions.

When rewards are tied to measurable improvements, employees tend to prioritise quick, visible gains over sustainable change. Temporary fixes replace structural solutions. Once the improvement is achieved—and the bonus secured—momentum often stalls.

Sustained performance improvement requires changes in behaviours, processes, and organisational mindset. These are long-term, systemic efforts that are difficult to capture in short-term incentive structures.

Example

In a call centre audit, a four-year-old bonus system had effectively halted efficiency gains, despite benchmarking indicating that 6% annual improvement should have been achievable. Only after the system was removed did performance begin to recover.

Creativity and the Limits of Extrinsic Motivation

The limitations of bonus systems become even more pronounced in roles that require creativity, problem-solving, or initiative.

Creative work depends on exploration, experimentation, and intrinsic motivation. It requires individuals to focus on solving problems—not on maximising rewards. Bonuses, by design, direct attention toward measurable outcomes and predefined targets. This narrows thinking and discourages risk-taking.

In environments with aggressive incentive systems, creativity often declines or shifts outside the formal organisation.

Example

At a management conference, a senior banking executive described how a bonus system linked to a management buyout led managers to focus more on justifying limited targets than on improving performance.

Discretionary Bonuses: A Partial but Flawed Alternative

Some organisations attempt to address these issues by replacing formula-based bonuses with discretionary rewards. While this increases flexibility, it introduces a different set of risks.

Discretionary bonuses can create uncertainty and dependency. Employees may focus on maintaining favourable relationships with managers rather than contributing effectively to organisational goals. In extreme cases, this can lead to perceptions of unfairness, favouritism, or even unethical behaviour.

Neither rigid algorithms nor subjective discretion fully resolves the underlying problem.

Motivation: Reward vs. Work Itself

A central tension in incentive design lies in the relationship between extrinsic and intrinsic motivation.

The stronger the focus on external rewards, the weaker the internal motivation to perform the work itself. When financial incentives dominate, they can crowd out other drivers of performance, such as mastery, autonomy, and purpose.

Over time, employees may become dependent on rewards to maintain effort. Without them, engagement declines.

Example

A manufacturing company that eliminated its bonus system reported a 30% increase in productivity. Employees stopped moderating their output and took greater ownership of results.

Fairness, Competition, and Organisational Friction

Bonus systems also struggle to achieve perceived fairness.

Ideally, incentives should be tailored to individual capabilities and roles. In practice, designing such systems is complex and often unworkable. As a result, some employees receive bonuses with relatively little effort, while others perceive targets as unattainable.

Moreover, when bonuses are tied to limited resources or relative performance, they can encourage internal competition at the expense of collaboration. From a game-theory perspective, individuals may find it more effective to undermine others than to improve their own performance.

This manifests in organisational silos, reduced information sharing, and “passing the buck”—all of which degrade overall effectiveness.

Why Companies Are Moving Away from Bonuses

A growing number of organisations—particularly in Europe and the United States—are re-evaluating the role of bonuses in their compensation structures.

Several factors are driving this shift:

- Bonus systems often constrain efficiency growth rather than enhance it.
- Employees increasingly expect meaningful work and partnership, not control through incentives.
- Labour market pressures favour higher fixed pay, which employees value more than uncertain bonuses.
- Incentives can damage trust, collaboration, and organisational culture.
- In some contexts, bonuses contribute to labour disputes and internal conflict.

It is also important to distinguish between bonuses and variable pay more broadly. When compensation is directly linked to accountable outcomes and integrated into the core remuneration structure, it functions differently from discretionary or short-term bonuses.

What Works Instead?

Moving away from bonuses does not mean abandoning performance management. It requires a shift in how organisations think about motivation, accountability, and leadership.

1. Focus on Operational Excellence

Improving efficiency is fundamentally a management responsibility. Organisations should prioritise eliminating unproductive activities, simplifying processes, and continuously refining operations.

Tools such as Lean Management, process analysis, and project-based improvements are far more effective than financial incentives in driving sustainable performance.

2. Set Ambitious Goals—Starting at the Top

High performance begins with ambition at the leadership level. When senior managers set and model ambitious goals, it creates a cascading effect throughout the organisation.

In many cases, companies transitioning away from bonus systems increase performance targets—often by around 20%—to counteract previously embedded underperformance.

3. Build Engagement Through Participation

Engagement is strongest when employees are involved in shaping goals and decisions.

Increasingly, organisations are adopting participatory approaches to strategy execution, where teams collaboratively define objectives and align responsibilities. This fosters ownership, accountability, and alignment across the organisation.

4. Redesign Compensation Around Stability and Value

Effective remuneration systems share several characteristics:

- They emphasise stable, predictable base pay.
- Compensation reflects the value of work and its contribution to results.
- Pay evolves with changes in role, responsibility, and impact.
- Differences in pay signal differences in value and performance.

Such systems support long-term relationships and reduce the distortions associated with short-term incentives.

Making the Transition

Eliminating bonus systems can create a significant competitive advantage—but only if implemented thoughtfully.

The transition involves more than changing pay structures. It requires:

- addressing managerial concerns about control and accountability,
- reshaping employee expectations and habits,
- and redefining the relationship between the organisation and its people.

Given the complexity of this transformation, many organisations benefit from structured change management and external expertise.

Conclusion

Bonus systems are widely used, intuitively appealing, and deeply embedded in organisational practice. Yet their long-term effects are often counterproductive.

By shifting focus from incentives to engagement, from short-term rewards to long-term value, and from control to participation, organisations can unlock higher levels of performance—without relying on bonuses.

In the end, the most effective organisations are not those that motivate people to earn rewards, but those that create conditions in which people are motivated to do great work.