

[Commonwealth Bank shareholders' rejection](#) of a move to base CEO pay on “soft targets” rather than financial goals, is just the latest example of how corporate Australia places too much confidence on the use of these types of targets. Financial goals are seen as more objective, transparent and “hard”, thus avoiding easy performance hurdles.

But, research shows financial incentives can have a negative impact on employee emotions and fear can destroy a business.

The use of incentives schemes to pay for performance is common. From CEOs to frontline staff, investors generally believed that setting challenging goals, with commensurate rewards, creates strong motivation and leads to higher productivity. But while incentive structures are commonplace, their emotion impact is less well understood.

Incentives and emotion

People experience a wide range of emotions in the workplace - joy, anger, pride, anxiety, fear, frustration. Organisations are emotional arenas, where emotions can drive behaviour either in a positive or negative manner. Incentive schemes are a part of this phenomenon.

Challenging performance targets generate a mix of emotions: the prospect of achieving financial rewards and increased status generates excitement, but equally the possibility of failure to meet goals can create anxiety. Indeed, when faced with difficult performance goals, employees [have reported experiencing](#) “sleepless nights” and worry that they might fail.

This fear of failure can have dire knock-on effects. Employees may become resistant to trying new and different modes of operation. They may [begin withholding information](#), fearing that power, territory and control could be lost. Also, the prospect of failure not only puts financial rewards at risk, it also threatens the status and self-worth of individuals. No one wishes to be classified as a “non-performer”, especially in today’s highly competitive corporate environment.

Shared fear

Emotions are not just experienced at the individual level, they can be shared. The speed with which a football crowd can be transformed into an angry mob indicates that such sharing can occur quickly.

An example of shared fear is Nokia. Its failure to keep up with innovations in the smartphone market [has been linked to fear](#). Top managers feared external competitors and shareholders while middle managers feared both their superiors and peers. The fear experienced by senior managers caused them to put pressure on their subordinates for performance but they did not fully reveal the severity of external threats.

Middle managers tended not to share negative information with their superiors, leading to top managers developing an unrealistic view of the firms' technological abilities and to neglect long-term investment in innovation. Middle managers did not wish to rock the boat, fearing that their status or career progression would be harmed. Fear was thus pervasive and corrosive.

Tracking is making this even more complex

Today, workforce analytics mean that [employees' mood can be monitored on an ongoing basis](#). On the one hand, such tracking could drive a positive workplace culture – by providing an up-to-date assessment of the emotional well-being of employees, and being used to proactively prevent problems.

On the other hand, if misused, such data could compound current problems. For example, if employee anxiety at an ambitious goal is highlighted and interpreted negatively, this could place yet another barrier on information flow. It is even more likely employees will bury emotions and only good news will reach the top.

We need more understanding of how incentives impact workplace culture

The key is to appreciate that incentives are not just asocial devices to enable higher performance levels. They are embedded in emotional regimes within organisations and have emotional impact, both for individuals and groups.

Setting ambitious targets within an unsupportive organisational culture is unlikely to generate

Creating a healthy company requires more than good pay incentives

Written by The Conversation

the productivity envisaged, at least over a longer time horizon.

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