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to the success and enjoyment of games.
The same is true in workplaces.

CHAPTER 5

Scorekeeping, Accountability, and Rewards

My view on accountability may be the least understood part of my vision of a better workplace. Freedom is the key to joy at work, but getting feedback on performance and taking responsibility for results are also crucial. Scorekeeping is tracking what happens as a result of decisions and actions. Accountability means taking responsibility for outcomes. I have noted that keeping score is important to the success and enjoyment of games. The same is true in workplaces.

During my only face-to-face meeting with Peter Block, who influenced me greatly with his writing on stewardship, accountability, and empowerment, we got into a discussion of how best to judge the performance of subordinates. He told me he had once been an advocate of “annual reviews” in which the boss would meet with a subordinate and go over the previous year. One day, in a moment of reflection, Block imagined calling his wife into his office at home. “Sit down, honey. It’s time for your annual review.” The absurdity of this imaginary session prompted him to change his mind about reviews. He realized that the relationship between supervisor and subordinate should be closer to a partnership of equals. He suggested a process within organizations that starts with the subordinate doing an extensive self-review. The leader’s role in this approach is much
diminished from that of the typical supervisor-led review. The boss becomes primarily a commentator, questioner, encourager, and, to a lesser extent, an evaluator.

I decided to try a variation of this approach with my senior team. Fourteen of us gathered at the home of one of the team members. One by one, each of us reviewed our own performance during the previous year. Most people outlined their successes, failures, and problems, as well as their goals for the year ahead. In nearly every case, four or five would offer a comment or question something the person had said. Sometimes they reinforced the person’s self-assessment; other times they suggested a problem or an accomplishment that had not been mentioned.

We held this type of session annually until I left the company. It became one of my favorite evenings with the senior team. There was not, of course, perfect honesty. Light did not shine on every issue. It was much too general for those who preferred specific quantifiable goals, but it was enormously valuable in other ways. It honored each individual as an important member of the team, regardless of title or status or compensation. It allowed us to show our respect for one another. It brought us closer together as a group. At the same time, I got a good sense of how people thought they had performed—and whether their self-assessments squared with the views of their colleagues.

I was a full participant in these discussions. I reviewed my own performance and chipped in comments about my colleagues. I took notes and afterward wrote a report summarizing the reviews. That report was submitted to the board of directors and to the compensation committee, which found it helpful when evaluating organizational changes and setting compensation. Doing annual reviews in a team setting was far more revealing and effective than having bosses do individual assessments of their subordinates. As Rob Lebow and Randy Spitzer wrote in Accountability: Freedom and Responsibility Without Control, “Too often, appraisal destroys human spirit and, in the span of a 30-minute meeting, can transform a vibrant, highly
committed employee into a demoralized, indifferent wallflower who reads the want ads on the weekend. . . . They don’t work because most performance appraisal systems are a form of judgment and control.”

This approach did not always translate well in other countries. Paul Hanrahan, the humble, courageous, and gifted leader who became CEO of AES when I left, was leading our China business when I started this approach to annual reviews. He mentioned to some of his Chinese colleagues that he was heading back to the home office for a self-review of the year. Did they have any suggestions? They were horrified.

“Self-criticism is very dangerous,” they said, remembering the experience of their parents not many years before under communism. “Don’t brag about your great successes. They will not believe you, and your credibility will be destroyed. Don’t talk about our problems or take responsibility for mistakes because they will blame you and you will get fired.” “What do you suggest?” asked Paul. “Try using lots of statistics. Statistics are good,” was their sincere and very concerned reply. If you have ever listened to a Chinese leader’s speech, you will realize how widespread this simple advice must be.

After In Search of Excellence was published, many organizations, including AES, asked themselves some tough questions. What are we trying to achieve? Where do we want to be in five years? What kind of place do we want to become? What is the bottom line? The search for answers revitalized countless large organizations—companies, nonprofits, and governments—and helped them achieve higher levels of performance.

At AES, the primary reason we existed was to help the world meet its electricity needs. To track our progress, we started calculating the number of people who were served by our facilities. By the year 2000, AES served the electricity needs of more than 100 million people—not bad for a company that had only been in existence for two decades.
But offering an important service or serving large numbers of customers does not mean that a company will be deemed a success. Increasingly, success is defined by purely economic measures, especially shareholder “value”—as if a company’s highest purpose were pumping up its stock price.

What about stock price as a measure of performance? Few non-investors believe it says much about actual performance, especially in the short term. It’s worth remembering, too, that it’s a yardstick that can be applied only to publicly traded corporations. This is a small minority of the universe of organizations that need a way to judge their performance. But despite its shortcomings, stock price is not only used as a measure of success but often the primary one. Even Jim Collins uses stock-price gains to separate the “good” companies from the “great” ones in his book *Good to Great*.

I do not recommend using stock-price changes, either up or down, as a significant measure of performance, even economic performance. Stock price puts far too much emphasis on one stakeholder—the shareholder—and is driven by external factors that have little to do with internal economic performance. Its use leads to poor decisions by people who work in the organization, and, as I will argue later, it distorts the real purpose of a company and discourages a more balanced approach to measuring success. Cash flow, income, and balance sheets are more reliable economic measures, but even these can be presented in a way that blurs the overall performance of a company.

The scoreboard for tracking success at AES was designed to buck this trend. Roger Sant first suggested that compensation for senior leaders be based half on whether an executive advanced the organization’s values and principles and half on technical performance, which included protecting the environment, meeting safety standards, developing new business, and hitting ambitious targets for earnings and growth. I suggested that this “50/50” design be adopted by all leaders and teams throughout the organization. A good way to see what an organization really stands for is to examine the
criteria used to determine executive compensation. You quickly find out whether companies put their money where their values are.

We evaluated performance on “technical factors” in a straightforward way. We kept track of emission rates of pollutants at every plant. We compared these emission rates with the limits specified in our permits. We also compared them with the emissions of similar plants operated by U.S. companies, even if the plant was in South America or Asia. We established a process of regular internal audits by task forces. Similarly, we tracked all safety incidents and accidents. Results were compared with those of U.S. companies in our industry. A rigorous internal audit process was also in place to review our safety record.

Financial performance was tracked using Securities and Exchange Commission standards and generally accepted accounting principles. Even before going public in 1991, the company adopted accounting and financial reporting standards that conformed to those used by publicly traded companies. In addition to independent audits by a major public accounting firm, AES organized task forces to do internal audits.

We had the hardest time measuring success in business development. While we certainly celebrated “wins” and mourned “losses” in creating business opportunities, it was difficult to assess in a timely fashion the long-term value of new undertakings. For example, it sometimes took four or five years to determine whether a new project was an economic success. Timely evaluations of noneconomic aspects of new businesses were troublesome as well.

Judging performance on our values and principles was more subjective and required greater creativity. In the first place, we had a difficult time finding a basis of comparison. No other organization put as much weight on these factors as we did. Among the companies that did stress values, few had methods for determining whether individual employees were practicing them. Because our values were so central to the way we did business, we had to come up with a tool for evaluating our employees.
We finally settled on a company-wide annual values survey. The questions changed somewhat over the years, but the thrust remained the same. For instance, we asked employees what we meant by fun and social responsibility. They also rated themselves and their supervisors on how well they were living our shared values. (See Appendix A for sample questions from various surveys.) In the early years, we devoted a lot of attention to quantifying the responses. But we gradually learned that most important information was contained in individual comments. When we began doing the surveys in the mid-1980s, I blithely promised to read the comments of all of our employees. That took me less than an hour the first year. By 1993, it took me a plane trip to Europe and back to get through them. Five years later, it took several months to review the tens of thousands of comments that poured into our central office.

After we read and summarized the results, we required each business unit to review and discuss them as well. This process was essential to achieving joy at work. Here are some facts and observations about the surveys:

The corporate survey was designed by a couple of people from the central office with advice from all around the company. Many of the business units added a local survey, designed by employees without HR experience.

Most surveys were completed anonymously, although people had the option of signing their names. This was probably out of fear that their comments could get them in trouble or even result in the loss of their jobs. Unfortunately, even after AES assiduously followed a “hold harmless” policy for years, most employees continued to withhold their names.

The fact that I read the comments on every survey reminded people that they were important members of the AES community.

While the survey was designed to encourage accountability, it was equally effective as an educational tool. Each survey reminded people what our shared values were, how they were defined, and why they were important to our life together.
The surveys helped identify problems, omissions, and misunderstandings in our values. They sometimes identified leaders who were acting in a manner inconsistent with our values and principles. Similarly, comments often revealed major misconceptions about how the values should be practiced.

Over the years, the survey results were overwhelmingly positive and the interpretation of values was very consistent with my own understanding of them. However, the responses from almost every business unit pointed out problems and significant issues that needed attention. We could never come close to perfection. “Negative” comments were much more prevalent from people or units that had been part of the company fewer than three years. Some examples: “Some leaders are too hands off in enforcing our values.” “AES belongs to someone else, not me. It operates independent of me and my actions.” “Bakke doesn’t care about vacation and hourly employees.” “It is amazing how many people push these principles yet it’s the same people who choose not to follow them.” “I don’t agree with the fun philosophy. Why do people have to take on other challenges in order to have fun?”

The survey results and comments were comparable regardless of nationality, religious affiliation, political system, wealth, or education level. This was an important finding because by the mid-1990s only 8 percent of the company’s employees spoke English as their first language. “These are Islamic values.” “This is consistent with my Christian faith.” “These are human values.” Among business units that had been actively part of AES for three years or more, the comments generally were outstanding. AES employees on every continent had nearly identical attitudes about our shared values and about what makes work fun. “Cultural diversity,” it would seem, tends to melt away when it comes to basic human traits.

The surveys reminded us that AES was very unusual, if not unique, among companies. “You have to be blind not to realize what the corporation has done to change the way people view their workplace,” said one of our U.S. employees. “I am very happy because
today I’m practicing values that were hidden before,” said a Brazil-
ian. “My plant is by far the best ever plant in Pakistan and my job is
of course the best I have ever had,” said another respondent. “The
AES values at work are basic human values and are similar to what
we tell our families at home,” said a Pakistani. “This is the most
amazing corporate doctrine I have ever seen,” said an American
about leaders who willingly give up authority. “AES is a great place
to work after coming from a
place with a class system. AES
has taught me a whole new way
to look at life and work as a
whole,” said another American.

Finally, the surveys con-
vinced me that we were well
on our way to becoming the
most exciting and fun large
workplace ever devised. “AES
is still the best job I’ve had and barring any disasters I hope I will
be able to work with AES for the rest of my life. Why do I like it?
The freedom, the challenge, the opportunities, the values, the goals,
EVERYTHING!” “The hardest job I ever loved.” “I’m free to develop
myself, I feel I can reach the moon.” I was most moved by this one:
“If making decisions and taking responsibility are major contribu-
tors to fun, [the plant] must be the most fun place in AES!” “The
working environment is so excellent that I really look forward to
coming to work in the morning.” “Great learning, great responsibil-
ity, great fun.” “The common principles of integrity, fairness, fun
represent AES culture.”

The values and principles survey was the most important score-
keeping mechanism we had in the company, even though it was not
basically quantitative in nature. It confirmed what I observed on
hundreds of visits to the company’s business units. I estimate that
over 90 percent of the survey comments from people who had been
with AES for three years or more were positive.
One of the most important side benefits of the survey was the discussions it prompted in all our business units around the world. These sessions celebrated the year’s progress on shared values and addressed problems described in the comments. This process was as crucial to AES as our budget deliberations and our compensation reviews.

No matter how it’s delivered, though, feedback on performance is always a touchy matter. Once, on a visit to our Thames plant in Connecticut, I asked how people felt about our shared values and principles. One of our people complained about “Monday morning quarterbacking.” “I thought it was against the rules to throw this thing back in my face after the fact.” “No, it is not,” I said. “After getting the appropriate amount of advice from colleagues, you always have the unquestioned right to take actions. However, once the action is taken or decision is made, we all look at the results. We use that information to hold you and ourselves responsible for those results.” Of course, the whole team, even the entire organization, should join in taking responsibility for what happens, but the individual who made the final decision bears a disproportionate share of that responsibility. That is what made AES so rewarding and worthwhile. It was the work equivalent of keeping score in basketball or in a card game.

I have noticed that the people who say that others in the organization are not being held accountable for their actions are usually referring to people who are not being held responsible for poor outcomes. Sometimes I wish they were as concerned about celebrating good decisions and good results. Both are equally important in the accountability equation. We tend to spend less time talking about the positive side and instead simply give tangible rewards: promotions, raises, and bonuses. And if we forget to reward good performance, people usually find a way to remind us of our oversight.

We are much less comfortable, even in games, holding people responsible for negative results. When is it appropriate to fire or demote people, eliminate their bonuses, or cut their pay? I do not
have a simple answer except to say that each course is appropriate under certain circumstances.

At AES, leaders had another way to deal with individuals who didn’t perform up to our standards. We simply didn’t assign decisions to them as often as we would have under normal circumstances. If abused, this is a form of control that can make work as demeaning as it was during the Industrial Revolution. But used judiciously, this approach can send an effective message to the underperformer while keeping work fun for the other members of the team.

I believe the best and most appropriate response to most mistakes in life and within an organization is to admit the error, ask forgiveness, and promise to try not to make the same mistake again. Most of the time, this is sufficient “punishment.” Parents who try this approach with their children know how hard it is to pull off. It is no less difficult in work settings. It requires that people in the organization understand what it means to forgive. And after granting forgiveness, they should then act as if the problem or action never took place.

Many times I have been asked, “When should someone be fired?” I am quite sure some people posed that question thinking that I didn’t believe firing is ever warranted. My answer has been consistent. Firing is appropriate when people do not accept responsibility for transgressions and refuse to ask forgiveness. This is especially true if the problem is a major breach of an important principle or value. Losing a million dollars or causing an injury to another person are terrible mistakes, but they would not necessarily result in dismissal unless the person refused to admit his error and ask forgiveness.

As every organization leader knows, mistakes often are not clear cut, and it can be difficult to assign blame. For example, it can take six to eight years between deciding to build a new power plant and getting sufficient operating data to learn whether the decision was a good one. Business-development efforts on AES’s first plant started in 1981, but it was not until 1986 that we realized the business would lose $20
million a year. If we had fired the rascals who dreamed up that business, AES would have lost its top four officers, including me.

Holding people accountable requires enormous humility. There are more questions than answers, and many gray areas require Solomon-like wisdom to navigate. For too long, organizations have confused accountability with controls. As Lebow and Spitzer point out, “The more you try to control people, the less responsible and accountable they become.” My experience is that no one wants to be controlled but that most people want to know how well they performed. Working people are much more willing to be held accountable than most leaders and board members assume. Keeping score, reviewing performance, assigning responsibility, and distributing rewards and penalties are crucial to creating a great workplace. But it takes preternatural discipline by an organization to make these processes work in a fair and consistent manner.

Rewards can take many forms. Honors, promotions, and the esteem of colleagues count for a lot. However, compensation is the most important reward in every organization except voluntary associations. As I have already pointed out, compensation usually does not have a major effect on increasing joy at work. It is a reward for work accomplished, not a predictor of future happiness. You should not expect to enjoy work more because you are given a significant pay raise. If the workplace is miserable, the people who work there are likely to push for extra pay to compensate for the drudgery they have to endure. I am convinced, for example, that assembly-line jobs command much higher pay than warranted by the skills of the employees because the work is boring and even demeaning.

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Pay classification systems used by governments and often advocated by unions are inherently arbitrary and unfair. They benefit underperformers and insufficiently reward star performers.
Above all, compensation is an individual matter. It takes into account a person’s contribution to an organization and the success of the organization. It usually involves some rough comparisons with how much people are paid in similar jobs in similar companies. But no two people are the same, and it is up to company leaders to make sure employees are paid according to their skills, accomplishments, and ability to work with other people. The pay-classification systems used by governments and often advocated by unions (and sometime management) are inherently arbitrary and unfair. They benefit underperformers and insufficiently reward star performers. Worst of all, these systems are a form of group control—“corporate communism,” in the words of an executive I know—in which everyone is dragged down to the lowest common denominator.

In keeping with my desire to make the workplace fun, the compensation issue that caught my attention most was the practice of paying salaries to executives and other “important” people, while everyone else in the organization was paid an hourly wage. In 1993, as I was first reading Peter Block’s Stewardship, I found myself in a self-congratulatory mood. “I could have written this,” I thought. “This is consistent with everything we are trying.” Then I came to his chapter on compensation. Block suggested that a class system existed in most organizations. Managers got paid salaries and were eligible for bonuses and some form of ownership participation. Everyone else was paid for the number of hours spent at the workplace, including overtime if they couldn’t finish their work within the “normal” time allotment.

The system was so ingrained that I had never considered its implications. I was perpetuating a pay system based on assumptions about people that were totally inconsistent with the ethos of our company. Even though we had long ago rid ourselves of time clocks and similar vestiges of the class system, a main dividing line remained in the pay system.

This was a throwback to the Industrial Revolution that separated the workforce into two arbitrary groups—labor and management.
The structure had been codified in “labor laws” early in the 20th century. The gulf between the two groups often is aggravated by the elitism of management and the militancy of unions. Today, federal and state wage-and-hour laws are one of the major hindrances to creating a fun and fulfilling workplace. For many workers, physical labor and time spent on the job are put ahead of innovation, output, and achievement.

As a young man I lived near an Indian reservation and went to school in a building originally on the property of a Native American tribe, a group of people subjected to considerable discrimination. In my late teens and early 20s I watched the civil rights movement make great breakthroughs for African-Americans. I am convinced that the next form of discrimination that needs to be overturned is the second-class treatment accorded to working men and women. The division between elites and workers was evident everywhere we did business, from former European colonies in India to South America to Communist countries such as China and Kazakhstan. Western democracies were no better than former Communist states or nations with emerging economies. This class system can be found, in some form or another, in every industrialized country in the world.

It took me nearly three years to persuade our plant leaders to experiment with an “all salary” approach to reduce and possibly eliminate this discriminatory behavior. The biggest obstacle was that it had never really been attempted in a significant industrial setting. It was also difficult to structure a program that fit with the existing labor laws in the United States. For example, by U.S. law if I carry a wrench for 20 percent of my work time, I am not “exempt” from the hourly limits and overtime requirements, no matter how much I am paid or what my title is.

Because of these antiquated laws, we couldn’t simply junk the hourly wage systems. Instead, we created a voluntary program in which people who chose to take salary and no overtime could opt back into the traditional system of hourly pay and overtime at any
time, no questions asked. Even the voluntary approach was seen by some experts as running counter to labor laws. These laws were designed to protect people working in sweatshops, but they were being applied to AES technicians, fuel handlers, and engineers who often earned between $40,000 and $60,000 annually (in 1990 dollars).

I wrote to then Secretary of Labor Robert Reich asking permission for AES to experiment in this area. I received a letter from him, probably written by an underling, saying that while it was an interesting subject, he couldn’t do anything because management couldn’t be trusted to treat these people fairly. President and Mrs. Clinton were gracious enough to listen to my plea, but they also found the issue too difficult politically to advocate a change in the laws. Sen. Don Nickles of Oklahoma was very knowledgeable about and sympathetic to the problem from his experience in his family business, but he couldn’t get Congress to support the idea. Despite encouraging words from many politicians, no movement toward change occurred in the eight years I pushed the issue.

Finally, our smallest plant in California, with only 26 people, made the switch to all salary. Every person decided to make the change, although one decided a year or so later to return to hourly wages and overtime. The original salaries were equal to each person’s hourly pay plus the amount of overtime worked by the average plant employee during the previous year. Everyone was made eligible for bonuses and stock options, just like bosses. Their pay packages included the same contingencies that all company leaders, including me, already had in ours. Bonuses and options were not guaranteed. They were based on individual, plant, and corporate performance.

In an attempt to stay within the spirit and letter of the applicable laws, the plant kept a record of hours worked, just in case the government complained that people were being exploited. About

Everyone should be made eligible for bonuses and stock options, just like bosses.
six months later, one of the control room operators called me to let me know how well the new pay approach was going. “We love it,” he said. “One surprise was that we now have a higher base salary. This has helped a couple of us get better home loans than we could have before. Most of us are spending less time in the plant than we did before as well. That’s more time to be with our kids. By the way, we also quit keeping time records.” “What about the government?” I asked. “We’ve gone to reading Martin Luther King on civil disobedience,” he responded.

A more dramatic conversion of “workers” to “business people” occurred at our Tisza II plant in Hungary. For three months the AES people there debated whether to convert from hourly wages to a salary system that would also make them eligible for bonuses and stock options. On one of my visits to the plant, Attila Legoza, a plant technician, tentatively approached me. Through an interpreter he asked if I would sign his contract converting to “all salary.” Within minutes, dozens of others had run to their lockers and returned with contracts for signature. It felt as if the Berlin Wall of labor-management relations were crumbling before my eyes. The impromptu ceremony ended in enthusiastic applause.

When we started this change in AES compensation policy, only 10 percent of our people worldwide were paid a salary. The other 90 percent received hourly wages and overtime. By the time I left in 2002, over 90 percent of 40,000 people in 31 countries were paid a salary, just like the company’s leaders. It was a giant step in breaking down barriers between management and labor and in bringing us together as AES business people. On average, people were paid about the same amount of money as before but spent less time at their plants and offices. There was no reason to take four hours on a Saturday morning to make a repair instead of staying an extra hour on Friday evening to get it done. In most cases employees took more responsibility, initiative, and pride in their work. The most important result was the self-respect that it engendered among AES people.
It was a revolution in our workplace—and one of my proudest accomplishments.

In strictly economic terms, it probably does not make much difference who in the organization determines an individual’s compensation. Some organizations use computerized formulas to determine pay. The president of the United States sets a percentage salary increase for every worker in the federal government. In some organizations, the human resources department sets pay for employees. Many organizations still use union and management bargaining teams to determine a person’s compensation. The most common decision maker on compensation matters has traditionally been the individual’s supervisor.

At AES, supervisors were generally given responsibility for making pay decisions for everyone who reported to them. I was convinced that compensation decisions could be made in a more satisfying way. The first big question was whether individual compensation information should be kept confidential. Roger Sant and I both advocated transparency on compensation matters, something that we felt was consistent with our idea that all important financial information should be shared among AES employees. We also believed it was a myth that people didn’t already know what the next person was paid. Many leaders did not like having to explain why one person was paid more than another. I responded that responsible leaders should be able to give a legitimate reason for all decisions they make, including those involving compensation. Unfortunately, few business units within AES decided to provide salary information to all team members.

AES had several interesting experiments allowing people to set their own compensation. The first one took place in a small business-development group and lasted only a year. The supervisor asked people in his group to set their own salaries. He judged the exercise a failure. The best people paid themselves too little, and the poorer performers paid themselves too much.

In the early days, bonuses for people in the plants were set by
“objective” criteria using formulas. The formulas gave way over time to a more subjective approach, which included an employee’s adherence to our values and principles. Bonuses were often calculated through a consensus process involving all team members. I heard few complaints about this approach.

One of AES’s most innovative leaders, Paul Stinson, rejuvenated the experiment to let people set their own compensation levels. He too limited the experiment to business-development specialists and other executives who reported to him. After several interactions, the process that seemed to work best required each person to propose a compensation level and then send it to others in the group for comment before making a final decision.

The most radical and possibly the most important AES compensation experiment was led by Pete Norgeot, a veteran plant manager and a protégé of Dave McMillen. First, the members of a group put together a plant budget that was consistent with their business plan. The budget had a line item for the total compensation expense for the entire staff. They decided that the total compensation paid to everyone in the plant could not exceed the budgeted number. A task force from the plant had already researched comparable pay levels in the area where the plant was located. That information was shared with everyone in the plant.

Each individual was asked to propose his or her own salary for the year ahead and then to send the proposal to every other person in the plant for comment. After a weeklong comment period, each person made a decision on his or her own compensation. When the amounts were tallied, the sum exceeded the budget, but not by much. As it turned out, only one person had settled on a pay level substantially higher than others of comparable responsibility, skill level, and experience had. He was also one of the few who had not followed the advice of colleagues to adjust his pay. After he was given this information, he agreed to reduce his proposed salary, and the revised compensation total allowed the plant to meet its original budget.
The individuals who participated in this approach were changed by the process. They had a much better understanding of how compensation affected the overall economics of the organization. They learned the value of seeking advice when they had to balance competing interests. They put the interests of other stakeholders on a par with or even ahead of their own. The process pulled team members together and helped some make the transition from workers to business people. It made them “owners” of their business. For the first time, they understood what it meant to be stewards. This method of setting compensation was stressful, successful, and fun.

While I was writing this chapter, a national magazine published its annual review of the best places to work in America. AES never made many of these lists, mainly because the evaluators were more interested in glitzy extras than in the crucial intangibles that make work fulfilling and fun. This particular *Fortune* article, titled “What Makes It So Great?” was typical. It touted one company that offered $500, a limo, and an extra week of vacation to employees who get married. Several highly rated companies pledged not to lay off any employees—a promise that reeks of paternalism and that is impossible to keep because of constantly changing economic conditions. Another company got high marks because it had a piano in the company lunchroom. Free Thanksgiving turkeys helped another company secure a high ranking.

I described my visit to the sugar-cane plantation in Uganda where the owners practiced the ultimate in benefit compensation by paying people almost nothing in cash, but giving them “free” schooling, “free” housing, and “free” medical care. Many companies in this country took similar approaches in an earlier era. Textile mills had company towns, and many factories had company stores. Ostensibly they were to benefit workers. In reality, they often indentured them by offering easy credit.

We have a similar approach to “helping” the poor in this country. A small percentage of the money designated for the poor and disadvantaged reaches the targeted people in the form of cash that
they can decide how to spend. Everything else is spent on government workers administering programs for the poor, on social workers, and on services such as health care, education, child care, and food. Poor people have little or no choice or decision-making role regarding the use of these “benefits.” If growth, responsibility, adulthood, and fun come from making decisions and being held accountable for the results, then we have done a great disservice to the poor. We have treated them like children who are unable to think for themselves. In the process we have made them dependent on us and turned them into the wards of society.

The benefits systems used by most companies are similarly paternalistic. Postwar inflation prompted the federal government to impose wage controls. Because this prevented companies from raising the amount of pay to individuals they wished to hire in a tight labor market, clever organizations started offering “benefits” that were exempt from wage controls.

The wage controls ended, but benefits remained. In most cases, benefit decisions are controlled by the company. But employees are loath to complain because government taxes cash wages but generally not benefits, since they are not classified as compensation. This is another law that hurts working people by giving them less control over how they can spend their money.

I think companies and the people who work in them should look for ways to be paid in cash or cash equivalents so employees can decide for themselves how much they want to spend on vacations, health care, child care, weddings, and a host of other gimmicky extras offered by many companies.

Almost no employee I’ve talked to seems to understand that the amount of money available to spend on staff is basically fixed by the economic realities of the organization. That fixed amount is made up of cash wages and salaries plus the cost of benefits. If the benefits increase, the cash wages must decrease. They would increase and decrease in equal measure were it not for the favorable treatment given to benefits by the tax code. Even so, it is important to
remember that benefits are not free. I hope that someday the tax laws will be changed so that companies no longer have an incentive to provide “extras” and instead will replace them with direct compensation that can be spent any way an employee sees fit. For example, wouldn’t it be better to receive cash to pay a relative to care for your children than to use the company’s child-care center?

Organizational discipline is the glue of a successful workplace. By discipline I mean self-discipline. I am not referring to punishment or holding someone accountable. Discipline means making important decisions and carrying out everyday responsibilities in good weather and bad, whether you’re sick or well, and even when you’ve been asked to simultaneously perform other duties.

My high school basketball coach had a rule that no member of the team could snow ski during the basketball season. The rule existed because he feared injuries to team members. The school was small and had only a limited number of competent players. There was an excellent ski resort less than 20 miles away. During my junior year, one of our better players broke the rule almost every weekend. The coach knew what was happening and did nothing about it. The results were insidious. Our practices were sloppier. I lost some of my respect for the coach and responded less enthusiastically to some of his instructions and suggestions. We seemed to play our games more as individuals than as a team. We lost more games than we should have based on our basketball talent. It doesn’t take much to ruin organizational discipline.

Discipline is checking the pressure gauge on the boiler every hour, even though you have never found it out of its normal range in the three years you have been responsible for the boiler area. Discipline is going to a plant to celebrate its remarkable values survey results, even when the poor financial performance by another business unit makes it unlikely that the company will reach its financial targets for the quarter. Discipline is refusing to take a bonus for your latest business accomplishment because you received a bonus for a previous project that did not live up to performance projections.
Discipline is staying humble when everyone around you is singing your praises because the stock price is rising. Discipline is sticking to the organization’s shared values even when the company’s economic performance has been less than stellar. Discipline is putting the interests of invisible shareholders and faraway customers on a par with your own. Discipline is having the courage to say you don’t know the answer and to seek advice from your colleagues—or to seek advice even when you’re sure of the answer. Discipline is taking pure joy from the assist, not the basket. Discipline is always remembering you’re part of a team.