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IT'S NOT ALL ABOUT THE MONEY

APPROACHES TO MOTIVATION AT WORK

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FOREWORD

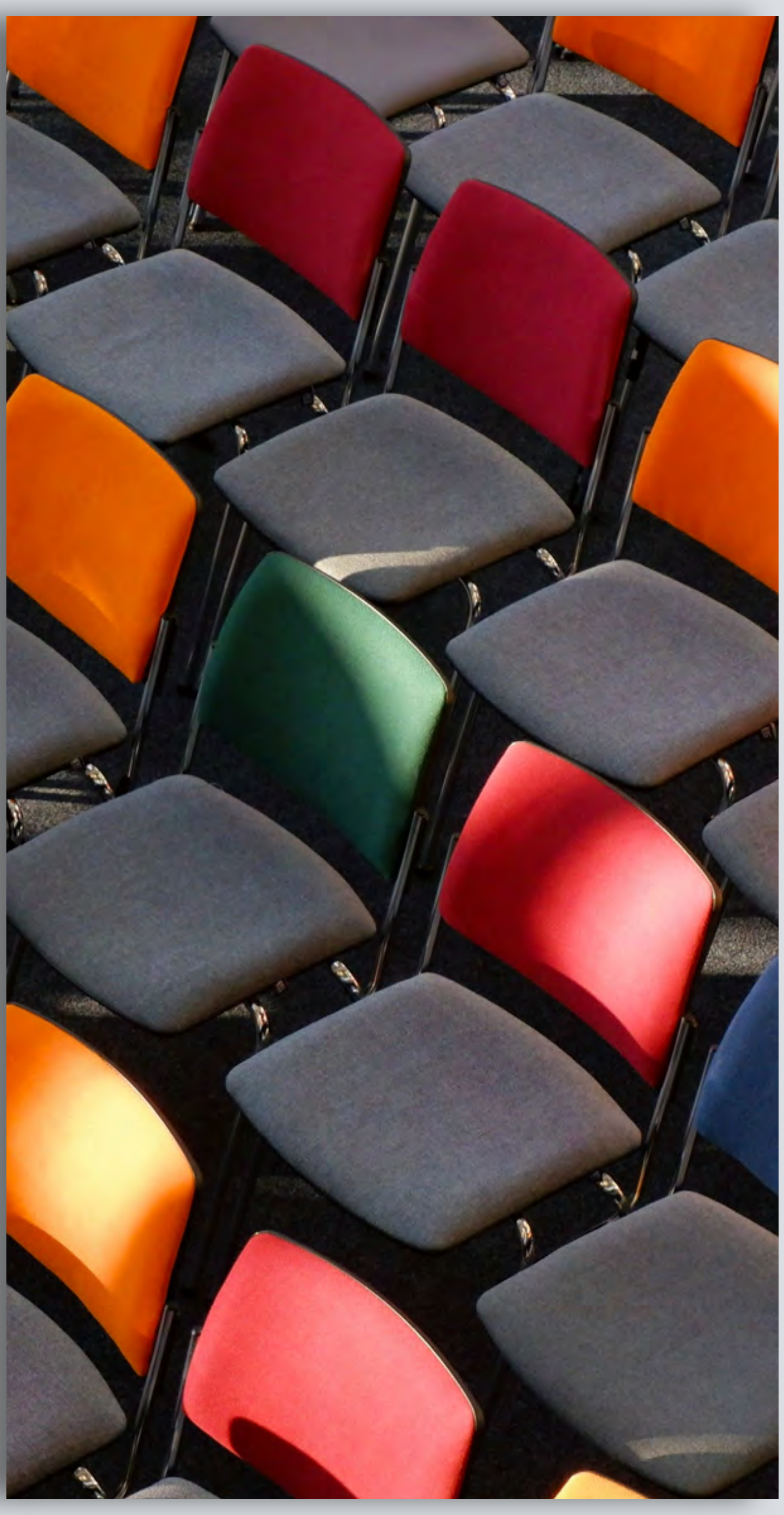
When you have spent years as a practitioner of reward, the frameworks and technical knowledge become second nature. That fluency and expertise of your trade is valuable. It is also, if we are honest, a risk. With expertise and practice can come a certain rigidity, a sameness of thinking, where the way we have always done things starts to feel like the only way things can happen. This paper is an attempt to prompt a challenge to any sameness of thought in an area for debate that falls within the reward remit – the study of motivation.

As we set out in the introduction, the objective of the report is to open up discussion on different ways of looking at motivation. We are not trying to cover the whole subject. To do that properly would be a life's work, the kind of sustained research that keeps academics busy for decades. That's not what we set out to do here. What we want instead is to prompt you to revisit how you think about an area of reward, and to look again at some of the foundations on which our legacy systems, processes and thinking are built.

Follow the threads in our paper that catch your interest and set aside the ones that don't. If a single idea makes you pause before reaching for the safe or familiar answer, the paper has done what we hope.

This paper also lays the groundwork for what comes next. In 2027 we turn to the principles of reward, the design of the reward function and the reimagining of reward strategy. Consider this a warm up act!

Karen Clark & **Steven Toft**



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- **Umar Taj,** Associate Professor, Warwick Business School

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1.0

INTRODUCTION

The question of what motivates people at work is core to the success of organisations. How to align people's efforts to an organisation's goals and the maximisation of its performance is one of the oldest and most persistent challenges in management.

The issue came into sharp focus with the growth of companies in the 19th Century and the separation of ownership and control. The conflict of interest between the owners of the company and those charged with managing it became known as the 'agency problem' – one which governments and organisations have spent 200 years trying to solve, with varying degrees of success. Aligning the interests of those that own the company with those that manage it has never been fully resolved. The same underlying tension – how to get people who are not the ultimate beneficiaries of an organisation's success to act as if they were – runs through every subsequent attempt to manage motivation at work.

The pattern that emerges is one of repeated attempts to solve motivation problems with structural and procedural fixes. We have treated motivation like something that can be switched on by a process. From governance codes, binding shareholder votes and disclosure requirements at corporate level through to objective-setting, performance ratings, bonuses and long-term incentives at the level of the individual employee, regulators and companies have consistently tried to answer the motivation question with systems and processes. The underlying incentive misalignment remains largely unaddressed.

Reward as a discipline has been built largely on inherited assumptions from one tradition – neoclassical economics, with its rational, self-interested, utility-maximising actor. Behavioural economics has been chipping away at that model for fifty years. But it isn't only behavioural economics that has a contribution to refreshing the principles on which we base reward practice. Psychology, sociology and anthropology each offer richer accounts of the motivated human at work that the reward function has been slow to absorb.

In this paper, we argue that reward practice needs to be intellectually fluent in all four traditions – not to abandon pay, obviously, but to understand what pay can and cannot do, and what else needs to be in considered when developing a reward strategy.

The objective of this report is to open up a discussion on the different ways of looking at motivation and the elements that influence people's decisions and choices. The challenges of attracting, retaining and managing people are likely to become more acute as working age populations shrink and skills shortages become a feature of labour markets across the developed economies. Social attitudes are changing too. Consumers and employees are demanding more from organisations and their senior executives. Over the coming years, those charged with leading organisations will have to work harder to ensure the loyalty and commitment of their employees.

This report, then, looks at the limitations of the economic model for understanding motivation in organisations and discusses other sets of conceptual tools which help to analyse and understand human behaviour. We are not saying that pay doesn't matter – it clearly does – only that there are other ways of looking at motivation that illuminate the rich complexity of what goes on in organisations.

The report is structured as follows:

We begin in **Section 2** by looking at **why rewards don't always motivate the 'right' behaviours and the dangers of a one-dimensional approach to motivation.** While this may be an age-old debate, the questions it raises are now becoming more urgent due to the acute challenges faced by organisations in the second half of the 2020s.

In **Section 3** we introduce **the idea of different 'lenses' through which we can understand motivation.** The economic model has been the one through which most management theory and practice has traditionally been applied. If we look at it through other lenses, though, such as the psychological, the sociological and the anthropological, other possibilities for approaching motivation become apparent.

Section 4 looks at **the implications of these lenses for the Reward function** and discusses ways in which we might reframe Reward as a result.

In **Section 5** we consider **the ways in which this reframing might change the practice of Reward** and some suggested next steps.

Section 6 pulls together the content and themes in the report and **draws some overall conclusions.**

*The difference between people doing things because they are **rewarded** or **punished** and people doing things for their own **satisfaction** or **wellbeing**.*

2.0

WHY REWARDS DON'T ALWAYS MOTIVATE THE RIGHT BEHAVIOURS

2.1

THE MOTIVATION CONUNDRUM

WHAT DO WE MEAN BY MOTIVATION?

It is important to define the meanings of the words we use. It is certainly worthwhile exploring the various definitions of motivation. Like so many of the words used to describe organisations and organisational behaviour, motivation is a metaphor. The term comes from physics – a force that causes something to move. The use of the words 'motivate' and 'motivation' in the context of human behaviour appears to date from the mid 19th Century. According to [etymology online](), 'motivate' appears in 1863 as *"to stimulate toward action"* and motivation in 1873 as *"the process of furnishing with an incentive or inducement to action"*. The first example of what we would now call 'intrinsic motivation' appears in 1904 as *"inner or social stimulus for an action"*. (It also notes that the term, demotivation doesn't appear until 1974.)

The difference between extrinsic and intrinsic motivation – the former coming from outside, the latter from within – is key to the discussion. Essentially, it's the difference between people doing things because they are rewarded or punished and people doing things for their own satisfaction or wellbeing.

Many definitions of motivation have appeared in business books over the years but perhaps the most useful are those which stay true to the term's physical metaphor, as a driving force, and which include the differences between the extrinsic and intrinsic.

PINDER (1988)

"A set of energetic forces that originate both within as well as beyond an individual's being, to initiate work-related behaviour and to determine its form, direction, intensity, and duration."

LOCKE & LATHAM (2004)

"Internal factors that impel action and external factors that can act as inducements to action. The three aspects of action that motivation can affect are direction (choice), intensity (effort), and duration (persistence)."

DIEFENDORFF AND CHANDLER (2011)

"An unobservable force that directs, energises, and sustains behaviour over time and across changing circumstances."

Motivation is not the same as performance, as Rob Briner, Professor of Organisational Psychology at Queen Mary University of London points out:

> *"An individual may be highly motivated towards achieving a particular goal but for a whole range of reasons (e.g., ability or lack of resources) they may not be able to do so. Even if a goal is completed it can only be considered to be relevant to work performance if it contributes to organisational objectives."*

Since the 1990s, the term 'employee engagement' has gained currency. A government report in 2009 found more than 50 definitions the term. Even so, it has become widely used and something of a proxy term for intrinsic motivation. As with motivation, many of the terms used in definitions of employee engagement are related to movement, most notably 'drive' and 'going the extra mile'. David Guest, who was then Professor of Organisational Psychology and Human Resource Management at Kings College London, pointed out that much of the discussion of engagement was muddled and said,

> *"The concept of employee engagement needs to be more clearly defined or it needs to be abandoned."*

It wasn't abandoned. Far from it. For a muddled concept it has been remarkably successful and is now regularly surveyed across countries and organisations, generating headlines as it goes.

WHY SHOULD PEOPLE BE MOTIVATED AT WORK?

Before discussing the question of motivation it's worth stepping back and asking why people should be motivated at work? Indeed, there is quite a lot of evidence to suggest that many are not. A number of recent surveys and their accompanying press releases have sounded the alarm about a *"motivation meltdown"* or an *"engagement crisis"*. The most often quoted is Gallup's annual State of the Global Workplace report. In 2026, it noted an *"employee engagement slump"* with the decline since 2022 being particularly marked among those in management roles.

Look back to Gallup's previous surveys, though, and the figures show that, despite the 'crisis', engagement levels are still higher than they were ten years ago. A quick trawl of historic articles shows that we were in the middle of an *"employee engagement crisis"* in 2017, in 2015 and in 2013. Can we therefore dismiss the recent headlines of a *"motivation meltdown"* as just the latest instalment of the inevitable scare stories?

Possibly but perhaps another way of looking at it is that workplace motivation is a chronic problem. Is this really a surprise? Most surveys of motivation and engagement are published with a commentary that treats disengagement, or even the absence of full engagement, as pathological. The implication is that a lack of engagement means that something is wrong.

Definitions of engagement and motivation vary. They usually involve workers having some kind of emotional identification with the organisation, speaking positively about it to others, feeling enthusiastic about their jobs and being willing to put in discretionary effort, or *"go the extra mile"*. Just doing your job, it seems, makes you 'not bothered'. But many jobs are made up of tasks that range from not particularly fulfilling to downright unpleasant. Engagement, then, is asking quite a lot of people.

Marxist writer Harry Braverman argued that people are alienated from their work because they are divorced from the ownership and control of the means of production. Being dependent on the capitalists for their employment and with only their labour to sell, workers have limited control over how that labour is used and no control over how the products of it are distributed. They are regimented by mechanisation and systematic management until their scope for discretion is minimised. All this, says Braverman, is de-humanising and soul destroying, leading to depression, boredom, disease and a sense of just being fed up at work.

Braverman's 50-year-old seminal work Labor and Monopoly Capital has seen a revival of interest recently, particularly in the context of the rise of AI. Concern about the *"continued degradation of human labor"*, the *"inexorable degradation of work"* and the *"reduction of human beings themselves to mere algorithms"* extends beyond those on the left. Likewise, you do not have to be a Marxist to conclude that many employees lack a sense of control over their working environment. Perhaps the surprise is not that they lack engagement but that they show any engagement other than what they are paid for. This perspective helps us to reframe motivation and engagement. Perhaps disengagement is the natural order. Anything more than that has to be worked at!

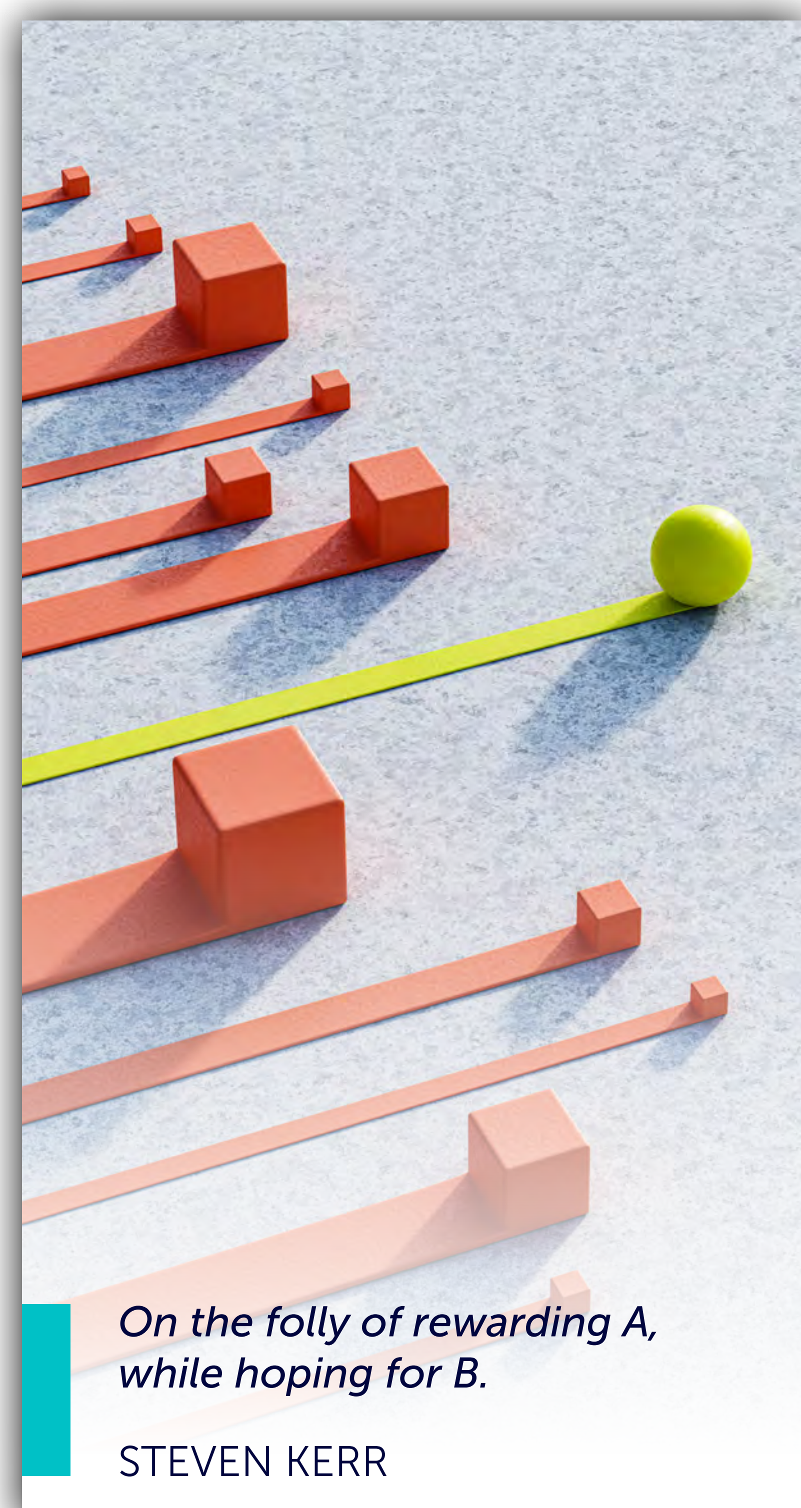
WHY ARE WE INTERESTED IN MOTIVATION?

Motivation is a leadership challenge as old as collective human endeavour. Getting people to do what the leader deems to be the right things in the right way, to follow a plan and to work together towards specified goals, exercised the minds of ancient Egyptians, Greeks and Romans. The question of whether it was better to use reward and punishment or to look for other ways of motivating people was discussed at length by Columella, a Roman writer on farm management, who believed he got much better results if he involved his labourers in planning the execution of various tasks.

Tapping into intrinsic motivation and using it to improve performance has long been a holy grail for leaders. Reward and punishment are expensive ways of getting people to do stuff. They require a lot of management and you have to monitor them closely if they are to be effective. Any sense that either the rewards or punishments are unfair or arbitrary will defeat the objective of the system. Wouldn't it be better if you could somehow get people to want to do the things you want them to do? If you could only get people motivated, you wouldn't need to manage them so closely, which would save time and money and (a key consideration) make the manager's life easier. The search for this prize underpins much of the writing on motivation. As Professor Rob Briner notes:

> *"An assumption in work motivation research is that intrinsic motivation is somehow superior to extrinsic motivation."*

It is this quest that has provided the impetus for many management initiatives (or fads) over the years. Some of these have involved quite detailed interventions, such as job enrichment, others are broader, such as employee engagement. At the most 'macro' level is an idea that appeared in the late 1970s, that organisational culture could somehow be managed. With the right interventions, so the story went, it would be possible to create a series of shared assumptions among the workforce which would make them align themselves with the corporate objectives. This is discussed in more detail in Section 3.



2.2

THE FOLLY OF REWARD

In 1975, Steven Kerr published a paper in the *Academy of Management Journal* under the disarmingly blunt title *'On the Folly of Rewarding A, While Hoping for B'*. It documented something so obvious, once stated, that you wonder why it needed saying at all: that organisations routinely design reward systems that pay for one set of behaviours while hoping the systems will produce quite different ones, and then express genuine bafflement when the expected behaviours fail to materialise.

Kerr provided several examples of misaligned reward systems. For example, an insurance company measured the number of claims being processed within two days, the number of complaint letters and the number of cheques returned. Given that underpayments caused complaints but overpayments didn't, staff adopted a *"when in doubt, pay it out"* policy, thereby ensuring speed and a lack of complaints. The company's intention had not been to incentivise overpayment but that is what its reward system had done. In a manufacturing company, a management team hoping to encourage creativity and risk taking found that they were rewarding conservatism and risk avoidance. Universities claimed that *"good research and good teaching go together"* while rewarding academics almost entirely for research and publications. Organisations promote their 'values' as inclusiveness, teamwork and creativity while rewarding people on the basis of individual contributions.

The factors Kerr identified as explaining *"why fouled up reward systems seem to be so prevalent"* will be familiar to many:

- **The difficulty of finding objective performance criteria.** *"Such efforts may be successful in highly predictable areas within an organisation but are likely to cause goal displacement when applied anywhere else."*
- **Overemphasis on highly visible behaviours.** Those behaviours that are visible tend to be rewarded because they are easier to measure.
- **Hypocrisy.** Bluntly, some senior management teams say they want something when actually they don't – what Chris Argyris described as the gap between the Espoused Theory and the Theory in Use. Espousing teamwork while exclusively rewarding individual performance, for example.

Kerr's article sparked a debate that has raged ever since on whether (and if so, how far) pay for performance actually works and the extent to which linking pay to performance has positive or damaging effects for the organisation.

Some recent studies provide some insight into the current state of that debate. At a macro level, there is a clear correlation between incentive pay and company performance. The ongoing work of the World Management Survey (WMS) has studied around 15,000 organisations since 2002 and has correlated target setting, performance monitoring and incentives with a number of measures of business success, such as productivity and profitability. Improvements in scores on these three areas correlated not only with firm productivity but also with other performance measures like market share growth and sales growth. However, the WMS notes the presence of incentives but doesn't give much more detail. It's also difficult to disentangle the extent to which it is the target-setting, the monitoring or the incentives that make the difference. (The WMS is discussed in more detail in PARC's Delivering Organisational Performance report (2023).)

A 2023 study by Professor Barry Gerhart of Wisconsin University examined 30 years of research on pay, concluding that the subject was under-researched.

> *"Employee compensation continues to be an under-studied topic despite its clear importance to employees' lives and its economic significance for organizations and society. The proportion of academic research on compensation in comparison with other HR topics has been lower than the relative proportion of interest in compensation expressed in HR practitioner journals."*

A further review of evidence by Professor Gerhart in 2025 found that some of the criticism of Pay for Performance was over-stated, while drawing a set of conclusions that probably won't surprise many Reward professionals. The degree of success is dependent on context.

PFP tends to work best when:

- Performance can be measured well (ideally with both results- and behaviour-based measures, to reduce gaming);
- Employees have some autonomy over how they achieve targets;
- Incentive intensity is proportionate to the job's actual risk and volatility;
- The wider management system is aligned around it.

It is most likely to disappoint or backfire when:

- Performance measures are narrow or gameable;
- Intensity is high without behavioural safeguards;
- The work is highly team-based, intrinsically motivating, or hard to attribute to individuals.

Much of the research is therefore inconclusive. Many studies end with the conclusion that can be paraphrased as 'It depends'. Understanding the context and dealing with the multiplicity of variables is key to the Reward professional's skillset.

However, there are potential bottlenecks at each stage, starting with the potential conflict of interest between the owners of a company and those charged with its management.

2.3

ORGANISATIONAL BOTTLENECKS

Classic organisational theory says that shareholders appoint directors, charge them with running the organisation and maximising its profits. This then cascades through the organisation in a series of objectives becoming more specific as the roles become more specialised and closer to the organisation's operations. However, there are potential bottlenecks at each stage in this process, starting with the potential conflict of interest between the owners of a company and those charged with its management – the Agency Problem.

As we noted in PARC's Delivering Organisational Performance report (2023), translating organisational objectives into the everyday behaviour of people across the organisation can be a challenge. Between the high-level definition of what business performance should look like at a corporate level and what gets translated into performance measures and individual objectives, there are multiple points at which the process can break down. The report discussed research by Dennis Layton of McKinsey, who found a significant disconnect between senior executives' priorities and the work people were actually doing. Typically, some 20-40 percent of what people are working on has little or no relevance to the organisation's goals. As he remarked:

> *"Executives don't know what people are spending their time on. It often comes as a surprise when we tell them."*

PARC's Performance Trilogy (2022) discussed in detail the financial performance measures used by organisations and concluded that all were useful in some contexts but flawed in others. Once non-financial performance criteria are added to the mix, finding organisational performance measures that could translate into team and individual performance criteria becomes all the more difficult.

The process may fail even further up the line because directors and senior executives have different understandings of a company's core process and how it makes its money. As Henley's Professor Andrew Kakabadse said, having worked with and researched hundreds of boards around the world, if you ask ten directors what their company's vision is, you will often get ten different answers.

Given these complications, it is not surprising that people find themselves with objectives and rewards that only vaguely link to the overall goals of the business. As we have seen, it can result in framing the delivery of 'performance' as a set of activities that are focused on the individual rather than the over-arching goals of the organisation.

2.4

THE 'THIN MODEL' OF THE PERSON AT WORK

So why do organisations keep designing reward systems that, with a little reflection, could be predicted to produce these dynamics? The answer is that the model of the person that is embedded in reward practice is one-dimensional, or 'thin'. By drawing on a wider range of insights and disciplines, we can build a richer and more accurate model of the person at work.

Reward as a professional discipline has been built largely on the 'rational actor' or 'homo economicus' assumptions of neoclassical economics. The job evaluation framework assumes that the value of a role can be assessed independently of the person performing it, and that pay aligned to role value will attract and retain the right talent. The incentive design framework assumes that attaching financial consequences to performance metrics will cause rational actors to increase effort in the rewarded direction. The benchmarking framework assumes that market rates represent equilibrium prices in a well-functioning labour market. Each of these frameworks has real utility. None of them is wrong. But together they constitute a model of the human being at work that is one-dimensional or, as referred to previously, 'thin'. It is thin in the sense that it systematically leaves out several of the most important features of how human beings actually behave.

The cost of the thin model is not primarily intellectual. It is practical. It means that reward functions invest heavily in financial interventions that deliver less than they could, because they are doing work that the thin model says they should be able to do but that human behaviour makes impossible. And it means that reward functions under invest in the non-financial and relational dimensions of the employment experience, because the thin model does not give them conceptual tools to think about them.

Nor is this a failure of individual practitioners. Even the people best placed to judge what drives performance in their own organisations turn out to have surprisingly little insight into it. Research by Professor John Van Reenen of the London School of Economics and John Dowdy, a senior partner at McKinsey, found a striking lack of understanding among managers of their own effectiveness. As they remarked:

> *"Interestingly, there's an almost complete lack of self-awareness among managers about the productivity or management effectiveness of their own companies: we found virtually no correlation between their independent rankings of the management practices of their companies and our own assessment, conducted as a double-blind study."*

When we followed this up with Professor Van Reenen, he remarked that: *"Some good managers were aware, but the overall level of self-awareness was stunningly low."*

If even the good managers don't really understand what it is they do that makes the difference, perhaps we should not be surprised that reward functions default to the thin model. It is not that practitioners have failed to notice the richer dimensions of motivation; it is that the discipline has not, until now, given them a systematic way of thinking about them. It is this systematic way of thinking that we intend to provide via the four lenses set out in Section 3.

The answer is that the model of the person that is embedded in reward practice is one-dimensional, or 'thin'.

2.5

THE IMPERATIVE FOR CHANGE

WHY ARE WE TALKING ABOUT THIS NOW?

Motivation, then, has long been a challenge for leaders but it is likely to get more difficult over the coming decade. As we pointed out in a PARC blog in May 2026, *"most reward systems were built for a world that is ending"*. The rapid political, social, economic and environmental shifts which started during the last decade were covered in detail in PARC's report Is Your Organisation Built to Adapt and Survive? (2025) We therefore don't propose to discuss them in depth here but it is useful to examine some recent developments and relate them specifically to motivation. Three forces stand out:

1. Shrinking labour supply
2. Rising volatility
3. Changing employee attitudes.

Here we consider each in turn.

LABOUR AND SKILLS SHORTAGES

Organisations will face numerous challenges over the next ten years. One for which we have a significant amount of data is the fact that working age populations are shrinking in most parts of the world. In some economies they are shrinking in relative terms, as a percentage of the total population. In a small (but growing) number of countries, they are shrinking in absolute terms. This makes labour shortages almost a mathematical certainty.

For much of the 'Era of Markets' between 1989 and 2019, organisations could rely on relatively stable conditions, increased labour pools and a workforce that broadly accepted the terms on which it was employed. Charles Goodhart described the entry of China and the former Eastern Bloc countries into the capitalist world as *"the largest ever positive supply shock"* as a massive increase in workers, resources, and markets became available to the global market system. That supply shock is now going into reverse. The number of people aged 15-64 is already decreasing in France, Germany and Italy. China's working age population is expected to shrink by 50 million over the next decade.

As the UK's Office for Budget Responsibility put it, in terms that could apply to all the advanced economies, many of the tailwinds that powered the Era of Markets have now become headwinds, none more so than the supply of labour. Combined with the skills demands of the Net Zero transition and rapid technological change, this is producing a looming labour shortage which is likely to intensify through the rest of the decade. Coupled with this will be changes in the way people are prepared to contract to work.

Predictions that technology may act to reverse this shortage by automating away many jobs have so far proved unfounded. PARC's report The Technology Paradox (April 2026) found little evidence of large-scale aggregate job displacement due to AI and robots. Even if AI makes certain jobs more productive there are bottlenecks that prevent that extending across an entire organisation and still more that stop it raising productivity across the economy. Re-orientating organisational structures, management practices, capabilities and processes to exploit technology requires more investment than the technology itself. In July 2026, FT Alphaville noted the continuing lack of observable productivity growth. It remarked:

> *"No matter how revolutionary the technology, the time and investment needed to change work patterns will hold back short-run productivity rather than boost it."*

Our conclusion in April 2026 was that predictions of a technology-driven 'jobs apocalypse' were overblown. The data published since seem to bear out that conclusion. US academics are forecasting a labour shortage and JP Morgan warns that America's 'pervasive talent deficit' is a national security risk.

The likely consequence is a shift in bargaining power from employer to employee. As we noted in PARC's Future Reward Leader (2023) report, *"talent scarcity is likely to change the balance of power in a number of sectors and key functions,"* forcing a shift from a 'buy' to a 'build' culture of internal development and making retention as important as recruitment. When skilled people are scarce and can move more freely, motivation stops being a nice-to-have and becomes a direct determinant of whether an organisation can keep the people it needs. Pay alone will not solve this: employers are having to rethink what *"attract, retain and motivate"* means for employees who now have more options.

These factors are likely to be compounded by wider social, economic and political trends.

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INCREASED VOLATILITY

The stable, globalised backdrop of the past three decades has given way to a period of geopolitical, economic and environmental volatility. This is 'radical uncertainty' and, in the words of one senior executive attending Davos, *"the most disruptive moment since World War II"*. Trade disruption, the war in Ukraine, the return of populist politics, tariff shocks and a 'synchronised stagnation' of growth across advanced economies mean leaders can no longer plan on the assumption of a stable operating environment. This creates a number of business challenges but it has a significant impact on motivation. As Dr Umar Taj, Associate Professor at Warwick Business School points out:

> *"We humans have an aversion to ambiguity. There is lots of research around this. For example, if you don't know how long it is before your train will arrive, you will be more unhappy if it arrives in five minutes than you would be if it arrives in ten minutes but you were told that it would. People prefer the longer known wait rather than the shorter unknown waiting time period.*
>
> *We're seeing this ambiguity aversion playing out at many different levels. There is ambiguity at the geopolitical, the national and the workplace level. Covid changed people's views on what's important and what they are prepared to trade off."*

This matters for motivation because volatility itself is corrosive to it: constant ambiguity, restructuring and bad news erode people's sense of security and control, both of which are core psychological drivers of engagement. Marsh's Global Talent Trends report in 2026 noted the lowest proportion of employees feeling that they were thriving at work since the survey started in 2014. The drop is particularly marked among those at the lower end of the pay scale.

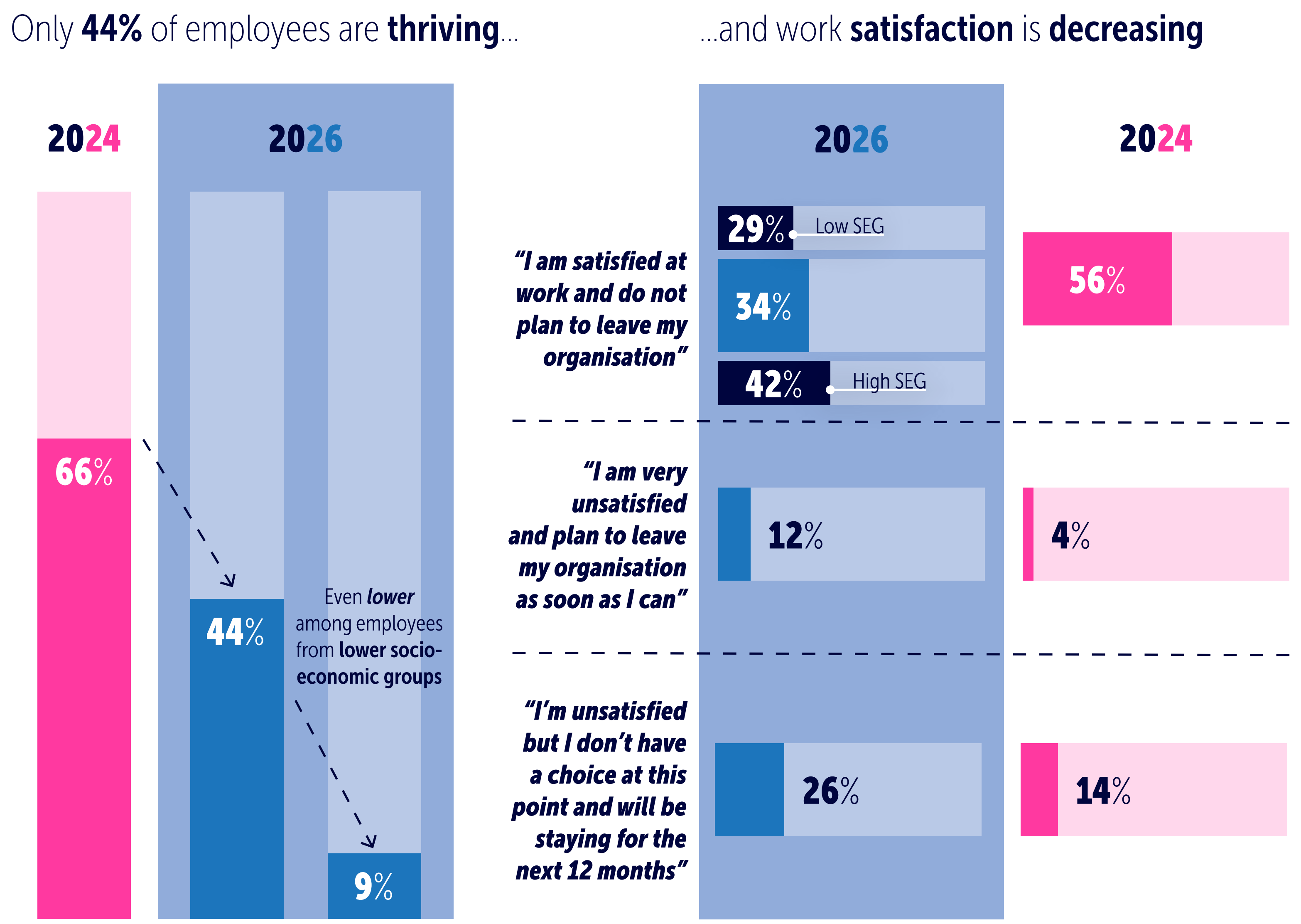
Lucy Brown, UK Fair Pay and DEI Consulting Leader at Marsh, commented:

> *"Many organisations continue to treat the workforce as a whole and risk missing vital warning signs from underrepresented groups."*

That the sense of thriving at work should have taken a knock among the lowest paid should come as no surprise, given the ravages of inflation since the Covid pandemic and the invasion of Ukraine. Some employers are becoming concerned that this anxiety is having an impact on work performance. In some industries, the material and psychological impact on frontline staff is severe and represents both an operational and reputational risk. As one senior Reward professional put it,

> *"We have to look after our lowest paid staff at the moment, both for moral and business reasons."*

LOWEST LEVEL OF EMPLOYEE THRIVING IN GLOBAL TALENT TRENDS' HISTORY



Source: Marsh (2026)

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VIBECESSION

A sense of precariousness is perhaps not surprising among the lowest paid but commentators have noted more general downbeat mood that pervades beyond the lower paid and appears to have become detached from the performance of economies. Even when there is an economic upturn it doesn't make much difference to people's feelings. In the US, for example, many people continued to feel economically insecure even when the economy was picking up. In mid 2024, 60 percent of Americans believed the country was in recession even though it hadn't been since the pandemic.

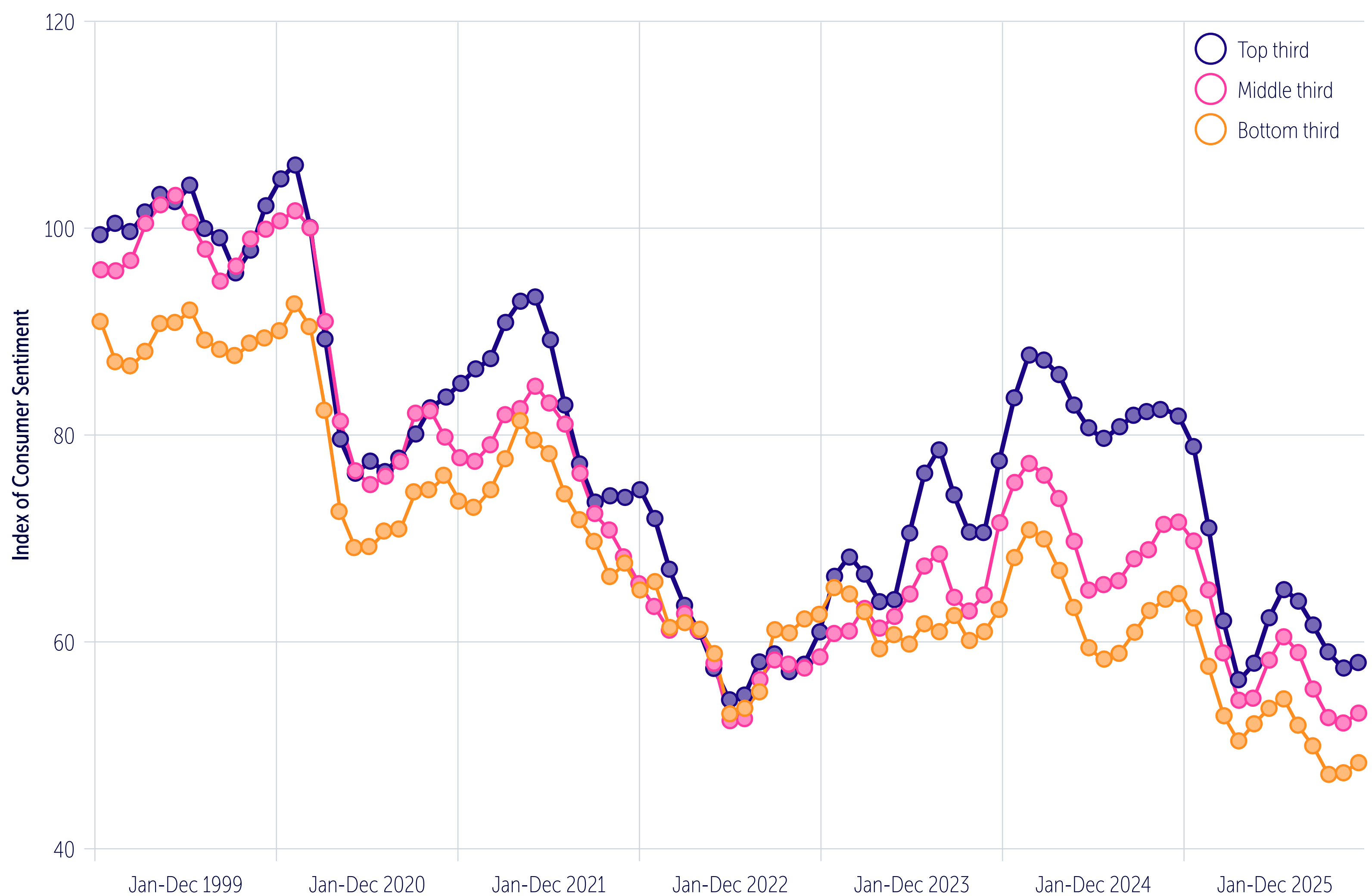
This phenomenon has been dubbed Vibecession – a social phenomenon where the 'vibe' feels like a recession even though the economic numbers say there isn't one. Some have argued that this simply reflects the distribution of income – all the benefits of economic growth are going to a few people at the top. However, the decline in consumer sentiment in the US is affecting the higher earners too. As labour market commentator Matt Darling remarked,

> *"It's just not the case that the vibecession is driven by the lower class being frustrated about living paycheck to paycheck. The vibecession is broadly experienced by all income groups."*

While the term 'vibecession' started in the US, aspects of it have spread to other countries. PwC announced the arrival of the UK's vibecession in 2024. Commentators report a similar downbeat feel in Australia and parts of continental Europe. It is difficult to quantify the scale or predict the longevity of this phenomenon given that its source and catalysts are unclear. Even so, it is likely that a general sense of demotivation will feed through to workplaces in some way.

In this environment, organisations cannot rely on steady growth, rising pay and predictable careers to keep people motivated. They will have to work harder to provide a sense of purpose, stability and fairness precisely when the external world cannot offer it.

INDEX OF CONSUMER SENTIMENT BY INCOME TERCILE



Source: Matt Darling, University of Michigan Index of Consumer Sentiment

CHANGING EMPLOYEE ATTITUDES

Attitudinal change is often framed as a generational shift but there is evidence of significant re-framings of ideas about work taking place across generations. A meta analysis by Professor David Costanza of Virginia University in 2023 found little solid evidence for distinct generations with fixed characteristics. Pew Research announced in 2023 that it was revising its approach to reporting on different generations, dropping the standard generational labels. However, there is evidence of a broad shift in the psychological contract between employer and employee, cutting across age groups. As Professor Thomas Roulet of Cambridge University argues:

> *"We have switched to a different dynamic between employers and employees. Employees are demanding more from their employers than they used to."*

This is most visible in the sustained demand for flexible and hybrid working, but also in rising expectations around purpose, transparency and fair treatment. Crucially, this shift has proved durable even through periods of higher unemployment, suggesting it reflects a lasting change in what people expect from work rather than a temporary product of a tight labour market. Employees, and potential recruits, increasingly research an employer's values and conduct before joining and are quick to call out perceived unfairness publicly.

As much of a concern for employers is a rise in anti-corporate sentiment. PARC has been tracking this since the beginning of the decade. Mistrust of 'big business' is no longer the preserve of the far left. As the FT's Rana Foroohar noted in August 2026, America's individualist consensus is fracturing as people question previously assumptions about free choice and upward mobility.

> *"Americans feel they have less and less control over their own lives, and they increasingly blame large corporations."*

Employee attitudes are shifting to a more sceptical baseline. Motivating a workforce today therefore means actively engaging with a genuinely renegotiated 'social contract', not simply managing pay and benefits as before.

Organisations that fail to keep people motivated risk a widening gap between the workforce they need and the one they can attract and keep, at a time when they can least afford it.

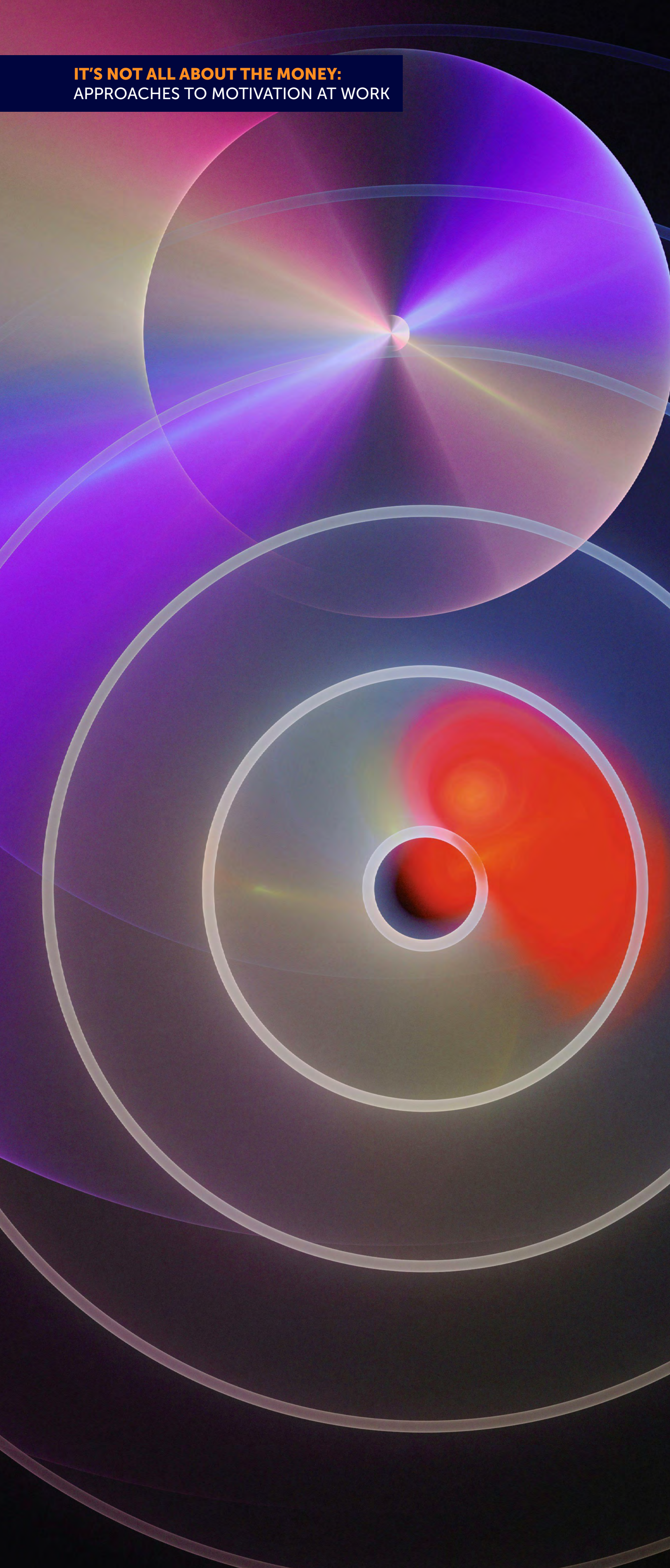
WHY THIS RAISES THE STAKES ON MOTIVATION

These forces compound each another. A more volatile environment increases the emotional and practical demands placed on employees at the very moment that skills shortages give them more freedom to leave, and changing attitudes mean they are more willing to act on that freedom, whether by moving employer, demanding flexibility, or simply withholding discretionary effort. Organisations that fail to keep people motivated risk a widening gap between the workforce they need and the one they can attract and keep, at a time when they can least afford it. Getting motivation right is increasingly a matter of competitive and organisational survival, not just good practice.

Marsh's Lucy Brown commented:

> *"People risk and enterprise risk are now deeply connected. If organisations are operating in a world shaped by misinformation, polarisation, cyber risk, and inequality, then fairness, transparency, and credible communication become even more important to stabilise the workforce."*

Of course, it isn't as simple as raising pay or adding another engagement survey. As the rest of this report sets out, the challenge is that our existing model of the person at work is too thin to support the kind of motivation organisations now need.



3.0

FOUR LENSES ON MOTIVATION

Organisational behaviour looks fundamentally different depending on which intellectual tradition you bring to it. This section examines four such traditions – economic, psychological, sociological and anthropological – each of which illuminates a different aspect of motivation. None of them is complete on its own; together, they build a fuller picture of the person at work than any one of them can offer alone.

PARC'S FOUR LENSES ON MOTIVATION

ECONOMIC

People respond to the incentives that are real to them as individuals.

- Bounded rationality
- Loss aversion
- Reference points
- Gift exchange

this is... **the MATERIAL dimension**

PSYCHOLOGICAL

Extrinsic reward can crowd out the motivation it was meant to build.

- Autonomy
- Competence
- Relatedness
- Pay as a hygiene factor

this is... **the COGNITIVE dimension**

SOCIOLOGICAL

Pay is judged fair or unfair against others – never in isolation.

- Felt-fair pay
- Organisational justice
- The psychological contract

this is... **the SOCIAL dimension**

ANTHROPOLOGICAL

Meaning and motivation are made within a culture.

- Identity
- Ritual
- Subcultures
- Espoused vs enacted values

this is... **the SYMBOLIC dimension**

No single lens is complete.
Together they build a richer model of the person at work than any one lens can offer alone.

3.1

THE ECONOMIC LENS: PEOPLE RESPOND TO ACTUAL INCENTIVES, NOT STATED ONES

The economic lens is the lens through which most reward systems are designed, even by practitioners who would not describe themselves as economists. Its core claim is that behaviour follows incentives so that rational actors respond to the financial consequences attached to their actions. This is not wrong. But behavioural economics has spent fifty years documenting the systematic ways in which actual human behaviour departs from the rational-actor model, with direct implications for reward design.

BOUNDED RATIONALITY

A key flaw in the rational actor model is that human beings simply lack the capacity and resources to make optimal decisions. Instead, they 'satisfice' – a term invented by Professor Herbert Simon of Carnegie Mellon University in 1956 by blending the words 'satisfy' and 'suffice'. Professor Simon's concept of 'bounded rationality' stated that, with inevitably limited information and capability, people will make decisions that are satisfactory rather than optimal. People rely on heuristics, misjudge probabilities and fail to consider trade-offs.

But the alternative to satisficing is decision paralysis, which can be more dangerous. The goalkeeper saving a penalty is a useful analogy. If they waited until they were certain about where the ball was going, it would be too late to save it. As Joe Perfetti put it, in the increasingly volatile 2020s, business leaders have to deal with problems that are complex, rather than just complicated. The analogy he uses is the difference between chess and poker. With chess, all the information is visible, and it is possible to anticipate a range of scenarios and plan responses to them. In poker, you must make a bet based on a partial view of the cards you will ultimately have. With the speed of change in the coming decade, bounded rationality might be the most we can expect.

LOSS AVERSION

Loss aversion is a term coined by Daniel Kahneman to describe a cognitive bias in which losses loom larger than gains. A pay cut of a given size causes more distress than the pleasure generated by a pay rise of the same size; the pain of losing money is felt roughly twice as intensely as the pleasure of gaining the same amount. This has direct and often underappreciated implications for reward design. It means that any change perceived as a loss – a reduced bonus, a lower rating than the previous year, the removal of a benefit, or even a real-terms pay cut disguised as a nominal increase – will generate a disproportionate motivational cost, regardless of how 'fair' or 'rational' the change might look on paper. It also means that people anchor on what they currently have, or on what they were told to expect, rather than on some objective external benchmark, and will defend that reference point tenaciously. Reward practitioners who design changes to pay or bonus structures without accounting for loss aversion routinely underestimate the resistance and disengagement they generate.

REFERENCE POINTS AND SOCIAL COMPARISON

These have been shown to matter more than absolute levels of pay. An employee who receives a generous rise but discovers a peer received more will often report lower satisfaction than one who received a smaller rise in a context of parity. The relative position, rather than the absolute amount, drives the emotional response. This is the empirical basis for Professor George Akerlof's gift-exchange model. Paying above the market wage is not simply 'overpayment' but a gift that generates a reciprocal norm of effort and loyalty, so long as it is perceived as generous and freely given rather than contractually extracted. The model explains why some firms deliberately pay above market and get more than proportionate effort in return. The downside is that cutting that premium, even if the level is still competitive against the market, can trigger a collapse in discretionary effort disproportionate to the cash amount involved. It is the withdrawal of the gift, rather than the amount itself, that breaks the unwritten contract, because the gift has been withdrawn, the reciprocal norm breaks down.

The economic lens is the lens through which most reward systems are designed, by practitioners who would not describe themselves as economists.

parc

Once the external reward is withdrawn, the intrinsic motivation that used to sustain the behaviour has often been crowded out along with it.

3.2

THE PSYCHOLOGICAL LENS: THE MOTIVATED SELF

If the economic lens explains why people respond to actual incentives rather than stated ones, the psychological lens explains something more troubling: why extrinsic rewards can actively destroy the motivation they are intended to support. This is the lens with the most direct implications for the design of performance-related pay, and the one whose findings are most consistently ignored in practice.

The foundational finding is what psychologists call the over-justification effect. In a series of experiments beginning in the early 1970s, Professor Edward Deci found that offering people extrinsic rewards for an activity they already found intrinsically enjoyable reduced, rather than increased, their subsequent willingness to engage in it. The reward changes how people explain their own behaviour to themselves: *"I did this because I was paid"* displaces *"I did this because I wanted to."* Once the external reward is withdrawn, the intrinsic motivation that used to sustain the behaviour has often been crowded out along with it.

This crowding-out effect has since been replicated across many settings, from blood donation to civic volunteering to knowledge work, and it is strongest precisely where reward practitioners might least expect it: for tasks that are interesting, autonomous and already meaningful to the person doing them. The often-heard warning 'don't make your hobby your job' has some evidence behind it.

Umar Taj, Associate Professor of Behavioural Science at Warwick Business School explains:

> *"Incentives can crowd out motivation. There are some really good studies on this. For example, paying people to donate blood reduced the number of people giving blood. As soon as you put a monetary value on it, you have crowded out any intrinsic motivation. I might have been motivated by altruism but now, the signal that I'm sending to everyone else is that I did it for the money."*

Self-determination theory, developed by Professor Deci and Professor Richard Ryan, holds that human motivation depends on the satisfaction of three basic psychological needs: autonomy (the sense of acting on one's own volition rather than under external control), competence (the sense of being effective and capable), and relatedness (the sense of being connected to and valued by others). Extrinsic rewards, particularly when they are experienced as controlling, undermine the sense of autonomy and, with it, intrinsic motivation. Rewards that are experienced as informational rather than controlling, such as recognition of a job well done, rather than a payment contingent on compliance, are much less corrosive, and can even support intrinsic motivation.

This does not mean pay does not matter, or that performance-related pay should be abolished. Frederick Herzberg's older but still useful distinction between 'hygiene factors' and 'motivators' is a helpful corrective here. Several of the Reward professionals who we spoke to remarked that pay operates mainly as a hygiene factor, capable of causing serious dissatisfaction if it is perceived as inadequate or unfair, but only weakly capable of generating positive motivation once it clears that bar. That said, it's useful here to draw distinctions between what people say and how they actually behave. As Professor Gerhart noted:

> *"What employees say (e.g., in surveys) can result in pay looking less important than evidence of what employees actually do in response to pay."*

The paper also noted that much of the research has taken place in the US, which is a comparatively rich country. Attempts have been made to pinpoint the hygiene factor by finding the satiation point in income beyond which additional income no longer increases subjective wellbeing. However, this calculation will always be complicated by any number of geographical, situational and personal factors. The hygiene factor will therefore vary widely according to circumstances. So, while pay may indeed be a hygiene factor, applying that principle in any practical sense may be somewhat challenging.

The psychological lens therefore does not tell reward practitioners to ignore pay. It tells them that pay is doing a different, more limited job than the rational-actor model assumes.

3.3

THE SOCIOLOGICAL LENS:
WORK AS SOCIAL FACT

The economic and psychological lenses both focus primarily on the individual and how individual perceptions, beliefs, and motivations shape responses to incentives. The sociological lens shifts the level of analysis to social behaviour. Work is a social fact before it is an individual experience. Émile Durkheim devised the term 'social fact' for those patterns of behaviour that exist independently of, and exert real force over, any individual member of a group. It is shaped by social structures, collective norms, relational expectations, and institutional frameworks that precede any individual actor and persist beyond them. Sociology acts as a counterweight to disciplines that place more emphasis on individual behaviour by pointing out that much of what people do is socially determined.

Barbara Wootton, (the UK's first female life peer) was one of the earliest writers to use both economics and sociology to analyse pay structures. Her 1955 work The Social Foundations Of Wages Policy argued that wage determination is driven by raw social power, status, and historical habit rather than pure market economics. She found that many pay gaps between jobs were irrational in economic terms. Supply and demand, she argued, are often less important than bargaining power and social norms in determining pay levels. Social norms, customs, relationships and proximity to power are, she argued, just as important as scarcity and demand for labour. Or, to put it more bluntly, those in professional occupations are highly paid because we expect them to be highly paid. It has very little to do with the scarcity of their skills.

As she observed:

> *"The features of the wage and salary structure which are anomalies from the angle of economic theory become intelligible in a broader frame of reference. It is the social factors which are missed in the economist's interpretation; and what is anomalous to the economist may make perfectly good sense to the sociologist. In a hierarchical society such as ours, large issues of social status are involved in wage and salary scales. Pay and prestige are closely linked; and (despite some exceptions) it is the rule that the high-prestige person should be also the highly-paid person; and vice versa. Once this rule is admitted as a factor in its own right, it is remarkable how effectively it explains much that, on a purely economic hypothesis, has to be explained away."*

Concepts of fairness owe much to these social determinants. Elliot Jaques came up with the term 'felt-fair pay' in the 1950s to describe the levels of pay that people implicitly think of as fair. What counts as 'rewarding work', 'fair treatment', or even 'effort' varies enormously across cultures. For example, as we noted in PARC's [Reward Manifesto](), there was a post-2008 shift in what 'fair pay' means.

As Marsh's Peter Boreham noted:

> *"Fewer people worried about executive pay when everybody's living standards were rising. In 2008 the music stopped! Bankers' bonuses and senior pay became a focus of outrage. This was a major reset for reward. It introduced a new concept of fairness. Fair pay for senior executives became seen as being relative to the rest of the workforce."*

Concerns about inequality and fairness didn't change because inequality actually worsened, but because stagnating living standards sharpened the focus on questions of relative worth. As one RemCo chair observed, before the financial crisis most remuneration stories concerned individual companies that had strayed from the norm. Afterwards, a broader cultural frame of corporate illegitimacy came to surround executive pay generally. The data hadn't changed but people's understanding of that data had shifted.

Reward systems that are designed at the individual level can, if they are poorly designed, corrode the social fabric on which collective performance depends.

Organisational justice theory gives this idea practical shape. Research in this tradition, building on John Stacey Adams's equity theory, distinguishes between distributive justice (is the outcome fair?), procedural justice (was the process used to decide the outcome fair?) and interactional justice (was I treated with dignity and given an honest explanation?). The evidence is consistent: procedural and interactional justice often matter more to motivation and retention than distributive justice. An employee who receives a smaller bonus than hoped for, but understands and trusts the process by which it was decided and is treated respectfully in the conversation, will typically respond very differently from one who receives the same outcome through an opaque or dismissive process. Reward functions that focus exclusively on getting the number right, while paying little attention to the fairness and transparency of the process and the quality of the conversation, are optimising for the dimension of justice that matters least.

The sociological lens also draws attention to the psychological contract, the largely unwritten set of mutual obligations and expectations that employees believe exist between themselves and their employer, over and above the formal terms of employment. Because the psychological contract is implicit, it is easily breached without either party quite realising it has happened. This breach of an implicit agreement, rather than the objective change itself, is often what drives disengagement, reduced discretionary effort and exit. A restructuring, a change to bonus terms, or a broken promise about career progression damages motivation not simply because of its content but because it signals that the relational, not just the transactional, terms of employment have shifted.

Finally, pay operates as a marker of social status and group membership, not simply as an economic reward. Where an individual's pay sits relative to colleagues, and how visible that position is, shapes identity and belonging within the organisation in ways that a purely economic reading of 'total reward' misses entirely. This is part of why perceived unfairness in pay can generate reactions of anger, disengagement and active sabotage of colleagues' interests that may be wildly disproportionate to the cash sums involved. What is being defended here is not the money but one's position in a social order.

When what an organisation says it rewards and what it actually rewards diverge, this violates the cultural schema of fairness and legitimacy and motivation collapses.

3.4

THE ANTHROPOLOGICAL LENS: IDENTITY, RITUAL, AND MEANING

The anthropological lens is the least familiar to reward practitioners and, in some ways, the most challenging, because it asks us to look at reward systems with the defamiliarising eye of someone encountering them for the first time.

Motivation isn't just about individual drives; it's shaped by the mental frameworks or 'schemas' people absorb from their cultural environment.

The argument that reward strategy must be visibly aligned with organisational purpose reflects something cognitive anthropology has long understood. People are acutely sensitive to mismatches between espoused values and enacted ones. When what an organisation says it rewards and what it actually rewards diverge, this violates the cultural schema of fairness and legitimacy. Motivation collapses, not because of the pay structure per se, but because the implicit social contract has been broken.

Motivation is partly an emergent property of a system, not just a personal trait. This reframes the entire 'performance management' debate. Perhaps the most provocative contribution of cognitive anthropology to these debates is the idea that motivation is not a natural constant waiting to be 'unlocked' – it is culturally constructed. The very desire to work hard, to take pride, to compete or collaborate, is learned through participation in cultural communities. This suggests that management's failure to get the 'right' set of behaviours from its incentives is not technical or structural but cultural: failures of schema transmission, failures of legitimacy, failures to understand that the meaning of work is negotiated, not imposed.

The concept of organisational culture is probably anthropology's most often quoted contribution to management thinking. That the emergence of the concept during the 1980s occurred at a time of organisational restructuring across the developed economies is probably no coincidence. The idea of corporate culture seemed to offer a magic bullet. If you could just change people's attitudes then they would just get on and do all the right things without having to be asked or monitored. That would reduce the need for middle managers thereby enabling the delayering that was coming into vogue at the time.

The early writers on organisational culture still offer some of the most insightful comments on the subject. As Professor Gareth Morgan said, in his classic, Images of Organisation, when we talk about organisational culture, we are trying to understand an organisation as if it were a society or a tribe. Just as, to understand a society, you would study its rituals, artefacts and unwritten rules, to understand an organisation's culture, you need to do the same.

Edgar Schein famously defined organisational culture as *"a pattern of shared basic assumptions"*. Because these are unspoken, those who share them don't realise they are doing so. They just carry on assuming. They only stop assuming when the beliefs they have taken for granted are challenged. Even then, they will cling to these beliefs even in the face of powerful evidence. These assumptions and beliefs underpin the behaviour that produces the unwritten rules, the rituals and the visible artifacts that define the society. Or, in our case, the organisation.

At first glance, something as all-pervasive as organisational culture promises to engender the kind of commitment from employees that other management techniques have failed to deliver. As Gareth Morgan remarked in 1986, *"The insights generated by the culture metaphor have sent managers and management theorists scurrying away to find ways of managing corporate culture."* This became one of the 'big ideas' of management literature in the 1980s.

But, as others pointed out, it might not be that easy. Linda Smircich raised the question of whether culture is something an organisation has or something an organisation is. If culture is something an organisation has, then you can just dump it and get a new one. If it is something an organisation is, then changing it means deep surgery (or therapy) for the whole organisation.

The concept of a single organisational culture, often promoted by those who see culture as a potential shortcut to organisational change, ignores the existence of subcultures. These exist in the wider society and therefore inevitable appear in large organisations. Dr Martha Newson of Oxford University's School of Anthropology has researched sub-cultures and the phenomenon of identity fusion, where people's personal and group identities become so tightly merged that group members act with extreme loyalty. Such identity fusion is associated with units within military corps but is also found among football hooligans, motorcycle clubs and extreme political organisations.

Elements of this extreme bonding occur within some organisations, where strong subcultures exist among specific groups of workers. Managers seeking to foster 'strong cultures' should be careful what they wish for. Group members with strong identity fusion may be loyal to each other and to their own idea of the organisation which can lead to stubborn and highly effective resistance to any attempt to change it. This was neatly illustrated by a British Airways employee interviewed during a strike in 2010.

> *"It is not an easy job to get into. It is quite lonely. You are away from friends and family, you miss parties, weddings and birthdays. But you get into it. It breaks you down and then builds you back up. That is why we are so proud to work for British Airways – we are BA, it has become our lives. You are living with your colleagues. When you put that uniform on you are so proud. That is why I feel it is so wrong, what is happening to the company."*

The relatively recent political polarisation in many western democracies has been attributed, in part, to identity fusion. When opinions become identities, discussion becomes difficult because any challenge to the opinion comes to be seen as an assault on the person. There is a growing body of literature on increasing polarisation in the UK, the US, France and across the EU, both arising from and contributing to the political and social volatility discussed in Section 2. There is some evidence that it is now becoming a workplace issue. A paper by Newcastle Business School in May 2026 noted that, while workplace polarisation is becoming increasingly visible, scholarly work on its impact remains limited.

Another of anthropology's challenges to the individualistic model is the concept of distributed cognition. Cognitive anthropologist Edwin Hutchins argued that cognition is not solely an individual process. His groundbreaking work *Cognition in the Wild* showed how the elements which make up the process of acquiring knowledge, developing understanding, analysing and making decisions, extend beyond the boundaries of the individual brain. In any organisational context, these processes involve other team members and also the tools and systems that embody knowledge and facilitate communication and understanding.

Professor Hutchins illustrated distributed cognition through the study of a US Navy warship, by observing and documenting the practices of the crew. The navigation process, for example, shows how cognition is a collective process involving multiple individuals interacting with each other and with non-human cognitive artifacts, such as systems, tools and procedures. These cognitive artifacts have usually been developed over time and are the products of learning from earlier events. Human cognition is therefore a social, cultural, and technological phenomenon.

There are parallels with the concept of organisational capital, which was discussed in PARC's Technology Paradox report in April 2026. This will be the subject of more detailed PARC research in 2027. Professor Erik Brynjolfsson, a prolific writer on the relationship between technology and productivity, believes it is what makes successful tech-led transformations.

> *"Business and academic literature on computerization emphasizes the importance of large and small complementary changes, including changes in business processes, organization structure and innovations in customer and supplier relations. These changes can be thought of as complementary investments in 'organizational capital' that may be up to 10 times as large as the direct investments in computers."*

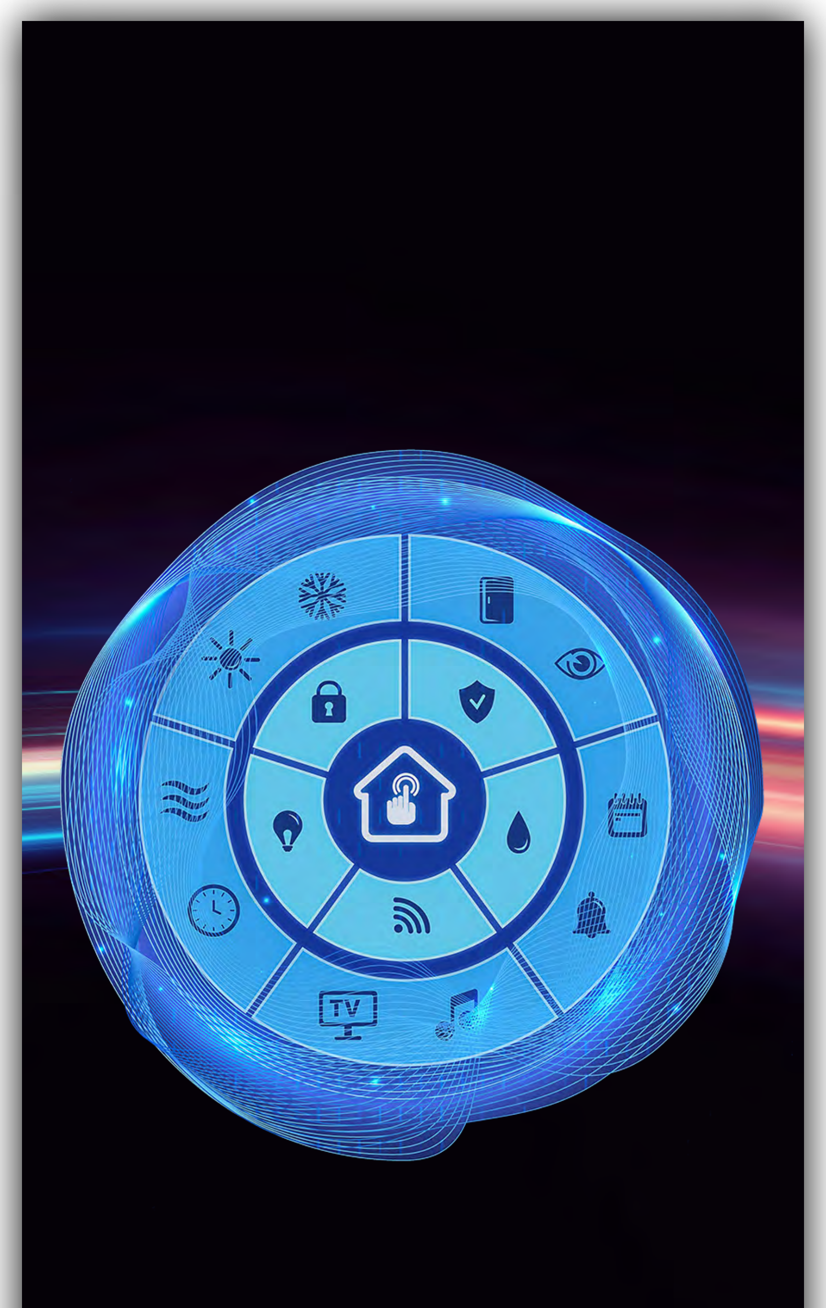
Nina Jorden, Assistant Professor at the University of Cambridge's Bennett School of Public Policy described organisational capital as *"path dependent – shaped by history, prior technologies and routines and slow to accumulate, requiring learning, experimentation, and often failure."*

So, while the term 'organisational capital' has come from economics, some of its mechanisms are those observed by Edwin Hutchins. Organisational capital depends, at least in part, on the distributed cognition he described. It, too, is a social, cultural, and technological phenomenon.

Another prominent economist, Professor Ha Joon Chang, stressed the importance of the collective, the organisational and the institutional factors in determining the success or organisations and entire nations.

> *"If effective entrepreneurship ever was a purely individual thing, it has stopped being so at least for the last century. The collective ability to build and manage effective organisations and institutions is now far more important than the drives or even the talents of a nation's individual members in determining its prosperity."*

Returning to economics takes us back to where our discussion started. Understanding the 'secret sauce' of organisational success requires us to apply different intellectual frameworks and to look through a variety of different lenses.



Understanding the 'secret sauce' of organisational success requires us to apply different intellectual frameworks and to look through a variety of different lenses.

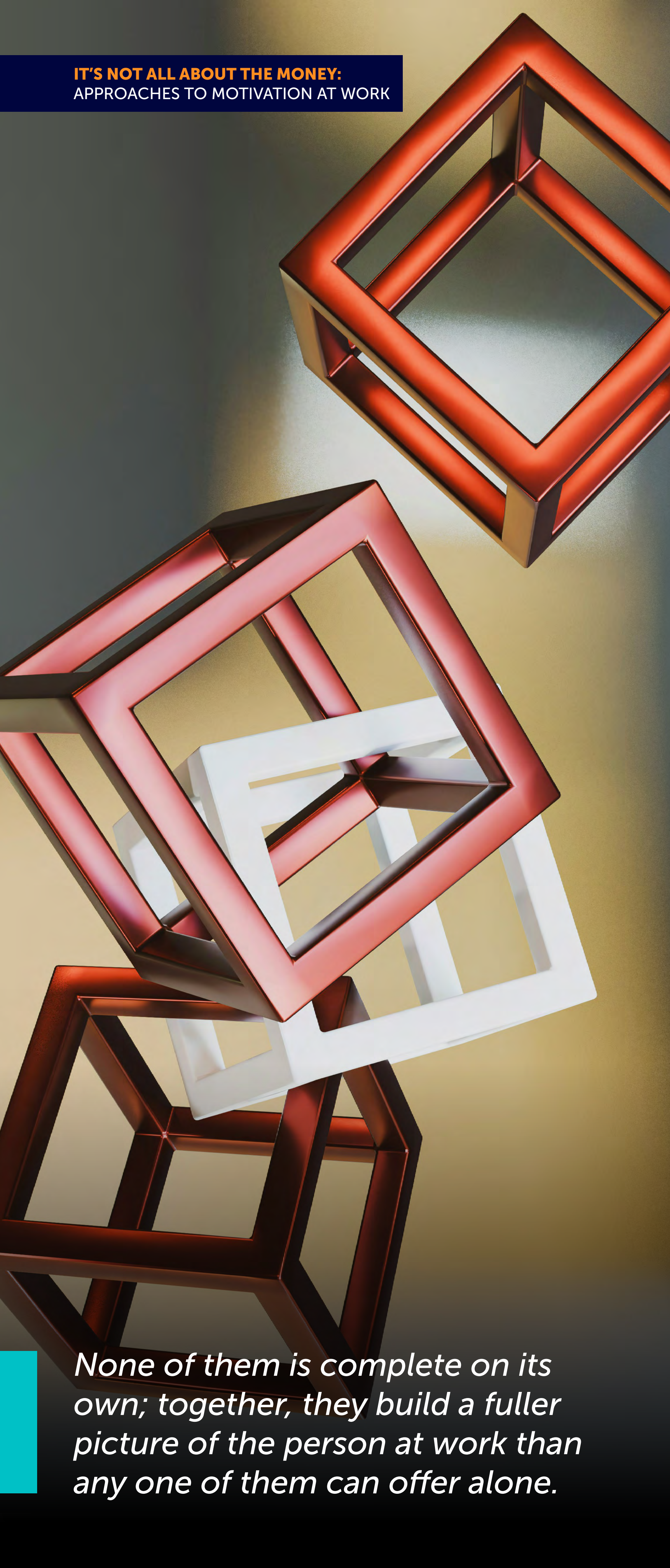
THE PARC FRAMEWORK – APPLYING THE FOUR PERSPECTIVES TO REWARD

Test a reward strategy or decision against its intended purpose – let your answers inform the business case for your initiative.

START WITH PURPOSE

What is this reward strategy or decision actually meant to achieve?
e.g. attract and retain, drive performance, restore fairness, shift culture, recognise contribution

THE LENS	ASK YOURSELF	WHERE IT POINTS
ECONOMIC Behavioural economics: people respond to the incentives that are real to them, not the ones on paper **the MATERIAL dimension**	• How will people actually respond to this – not how we intend them to respond? • What here will be felt as a loss? Against what reference points or comparisons will people judge it? • Where we pay above market, why?	**EXPLORE** • Simon (bounded rationality) • Kahneman (loss aversion) • Akelof (gift exchange) **BUILD THE CASE FOR** How pay is communicated; justifying change; defending above-market pay as an investment, not just a cost.
PSYCHOLOGICAL Self-determination and goal-setting: extrinsic reward can crowd out the motivation it was meant to build **the COGNITIVE dimension**	• Does this support autonomy, competence and relatedness, or just monitor and control? • Are we asking 'what is the right incentive?' when the better question is 'is the goal clear, challenging and genuinely accepted, with the feedback to match?' • Is there intrinsic motivation here that a controlling reward could diminish?	**EXPLORE** • Deci (self-determination) • Locke and Latham (goal-setting) • the over-justification effect **BUILD THE CASE FOR** Better performance conversations and manager capability, rather than reaching first for bigger incentives.
SOCIOLOGICAL Organisational justice and felt-fair pay: pay is judged fair or unfair against others, never in isolation **the SOCIAL dimension**	• Does this feel fair, tested directly with employees, not assumed from the methodology? • Is the process transparent, consistent and open to challenge? Not just the outcome? • Which internal relativities, reference groups and pay ratios will decide whether this is seen as legitimate?	**EXPLORE** • Jacques (felt-fair pay) • Wootton (pay, power and status) • Organisational justice **BUILD THE CASE FOR** Procedural fairness and pay transparency, and tracking internal relativities – not just the external benchmark
ANTHROPOLOGICAL Culture, identity and meaning: motivation is made within a culture, not handed out **the SYMBOLIC dimension**	• What does this actually reward? Does that match what we say we value? • Whose identity or subculture does this touch? Have we involved them, or imposed change on them? • Are we recognising contribution in a way that signals genuine regard to the individual?	**EXPLORE** • Smircich (culture) • Newson (identity fusion) • espoused vs enacted values **BUILD THE CASE FOR** Recognition, meaning and co-designing change with the groups it affects, rather than doing it to them.



None of them is complete on its own; together, they build a fuller picture of the person at work than any one of them can offer alone.

4.0

IMPLICATIONS FOR REWARD

Organisational behaviour looks fundamentally different depending on which intellectual tradition you bring to it. This section examines four such traditions – economic, psychological, sociological and anthropological – each of which illuminates a different aspect of motivation. None of them is complete on its own; together, they build a fuller picture of the person at work than any one of them can offer alone.

4.1

THE FOUR DIMENSIONS OF REWARD

Material reward: the financial dimension

Pay, bonus, benefits. This addresses material needs, manages economic security, and meets the threshold conditions for engagement. It is most strongly motivating when it addresses genuine material need, when it is perceived as fair relative to internal and external comparators, and when it is designed to reflect the actual behavioural economics of human decision-making (reference points, loss aversion, present bias). It has rapidly diminishing motivational returns beyond the threshold of adequacy and fairness.

Cognitive reward: the informational dimension

Feedback, goal clarity, recognition of competence, line of sight between effort and outcome. This addresses the need for competence and the motivation that comes from understanding how one's work connects to meaningful outcomes. It is the dimension most relevant to goal-setting theory and to the design of performance management processes.

Social reward: the relational dimension

Fairness, voice, consistency, psychological contract integrity. This addresses the need for relatedness and the motivational importance of feeling treated with respect, belonging to a fair system, and having one's perspective genuinely considered. It is the dimension most relevant to organisational justice and to the quality of the manager-employee relationship.

Symbolic reward: the meaning dimension

Recognition as a human act, rituals of belonging, identity affirmation, the signal of genuine regard. This addresses the deepest motivational register — the need for meaning, identity, and the experience of being valued as a person. It is the dimension most invisible to conventional reward analytics and most under-invested in by reward functions.

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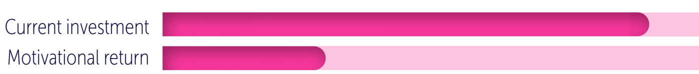
FOUR DIMENSIONS OF REWARD

Consider a richer model of reward and review where your organisation's investment may be out of balance

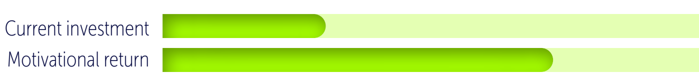
MATERIAL – the financial dimension
- Pay
- Bonus
- Benefits

via the ECONOMIC lens



COGNITIVE – the informational dimension
- Feedback
- Goal clarity
- Competence
- Line of sight

via the PSYCHOLOGICAL lens



SOCIAL – the relational dimension
- Fairness
- Voice
- Belonging to a fair system

via the SOCIOLOGICAL lens

SYMBOLIC – the meaning dimension
- Recognition
- Meaning
- Identity
- Genuine regard

via the ANTHROPOLOGICAL lens

Do you need to rebalance how you structure and communicate reward initiatives?

Bar lengths are for illustrative purposes only

4.2

WHERE REWARD PRACTICE OVER- AND UNDER-INVESTS

Against this framework, it is possible to map where most reward functions are currently over- and under-investing. The diagnosis, in aggregate, is consistent: heavy over-investment in the material dimension and chronic under-investment in the cognitive, social, and symbolic ones.

The material dimension receives the lion's share of reward investment: the annual pay review, the bonus scheme design, the benchmarking, the job evaluation, the benefits portfolio. These investments are not wasted – getting pay right is necessary. But the return on incremental investment in the material dimension, beyond the threshold of adequacy and perceived fairness, is low. The same incremental investment in improving the quality of performance conversations (cognitive), in redesigning pay processes to be more transparent and participative (social), or in developing managers' capacity to recognise and affirm contribution meaningfully (symbolic), is likely to generate substantially greater motivational return.

The practical question this raises for reward leaders is not whether to keep investing in the material dimension – that investment is necessary and will not disappear – but how to rebalance the wider portfolio of reward investment so that the cognitive, social and symbolic dimensions receive a share of attention closer to their actual motivational return. Section 5 sets out what that rebalancing might look like in practice.

The diagnosis, in aggregate, is consistent: heavy over-investment in the material dimension and chronic under-investment in the cognitive, social, and symbolic ones.

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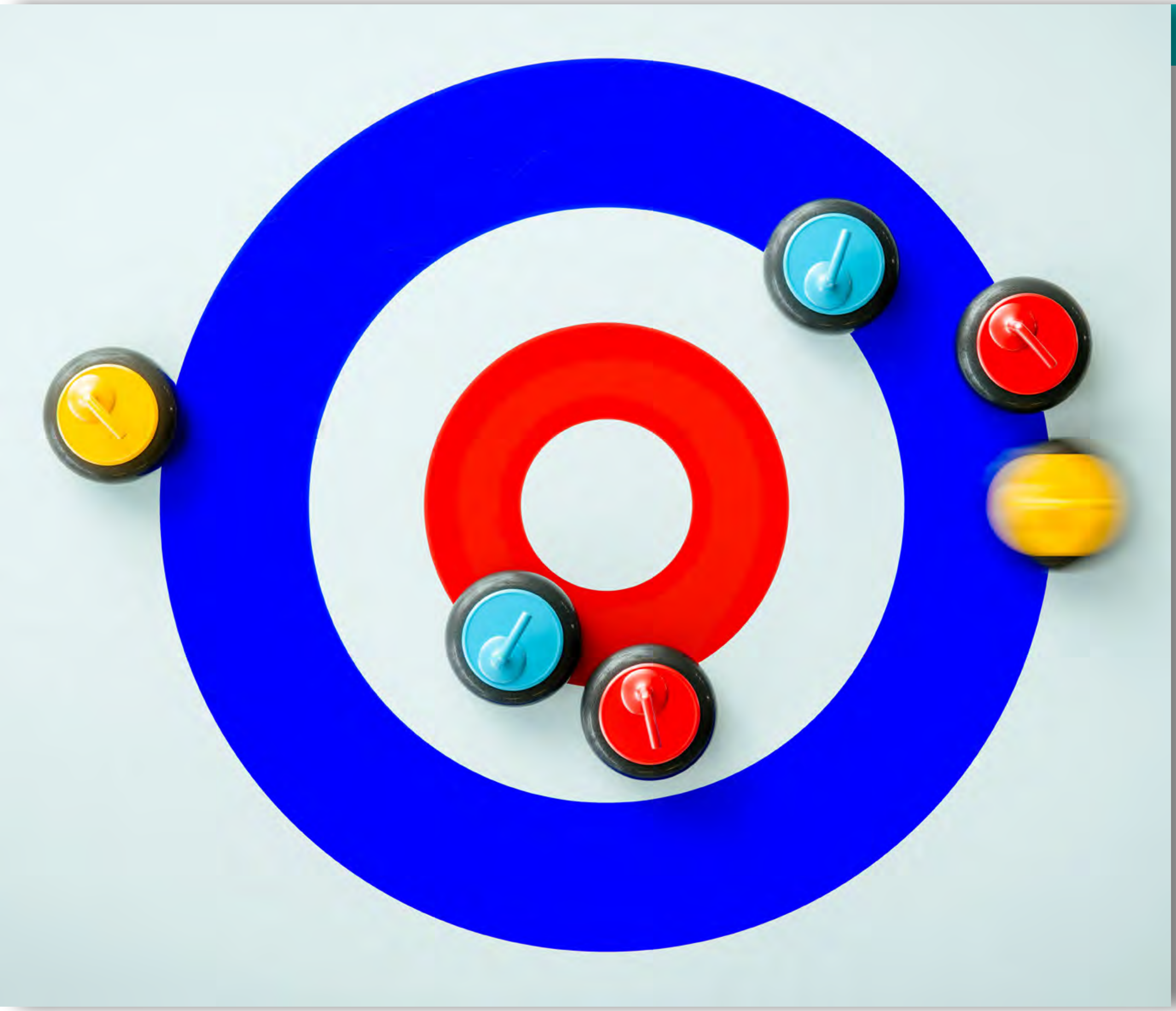

5.0

WHAT THE FOUR LENSES MEAN IN PRACTICE

The four lenses are not simply an academic exercise. Each one points towards specific, practical changes in how reward, performance management and organisational change are designed and run. This section sets out what that means for three areas of practice in particular:

- pay design,
- performance management,
- and managing culture and change.

5.1

PAY DESIGN

The economic and sociological lenses have the most direct implications for pay design. Because reference points and relative position matter more than absolute amounts, pay design should pay as much attention to how a pay decision is communicated and compared as to the number itself: a smaller increase clearly and honestly explained will often land better than a larger one delivered badly or discovered informally. Loss aversion means that any reduction, whether in bonus, in rating or in a benefit, carries a disproportionate motivational cost. Therefore, changes to pay structures need to be sequenced, trailed and explained well in advance, and, where possible, protected by transition arrangements rather than imposed as a sudden loss. And because Akerlof's gift-exchange model shows that pay above the market rate can generate a disproportionate return in discretionary effort, organisations should think of above-market pay, where they can afford it, as an investment in a reciprocal relationship rather than simply a cost to be benchmarked. Think hard before cutting it, since it is the withdrawal of the gift, not the size of the cut, that breaks the unwritten contract.

The sociological lens adds a further, and often uncomfortable, dimension to pay design. Barbara Wootton's argument that pay owes as much to social power, status and historical habit as to market economics is a useful corrective to purely market-based job evaluation and benchmarking: some roles are highly paid largely because they have always been highly paid, and because everybody assumes they should be, not because of any objectively scarce skill. This does not make benchmarking pointless, but it does mean reward functions should not expect a purely economic justification for every differential in the pay structure to satisfy people, because the differential was rarely purely economic in the first place. What people are actually assessing is closer to what Elliot Jaques called 'felt-fair pay': not whether a salary matches a benchmark, but whether it feels legitimate given a person's role, effort and position relative to others. Pay design should therefore treat 'does this feel fair?' as a first-class design question, tested directly with employees, rather than an assumed by-product of getting the job evaluation methodology right.

The reference group against which pay is judged to be felt fair can also shift abruptly, as it did after 2008. The 2008 Financial Crisis was a reset. It introduced a new concept of fairness. Fair pay for senior executives became seen as being relative to the rest of the workforce. Pay design now needs to track not just external market rates but internal relativities and pay ratios, since it is these, more than the external benchmark, that increasingly determine whether senior pay in particular is seen as legitimate.

Pay design should also be built around fairness as a process, not just an outcome. That means transparent, consistently applied methodologies for job evaluation and pay progression; a clear and honestly communicated rationale for how pay decisions are reached; and mechanisms for employees to raise concerns about fairness without fear of being seen as difficult. Given how much of the motivational damage from pay decisions comes from perceived unfairness in the process rather than the outcome itself, this is likely to be one of the highest-return investments reward functions can make.

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5.2

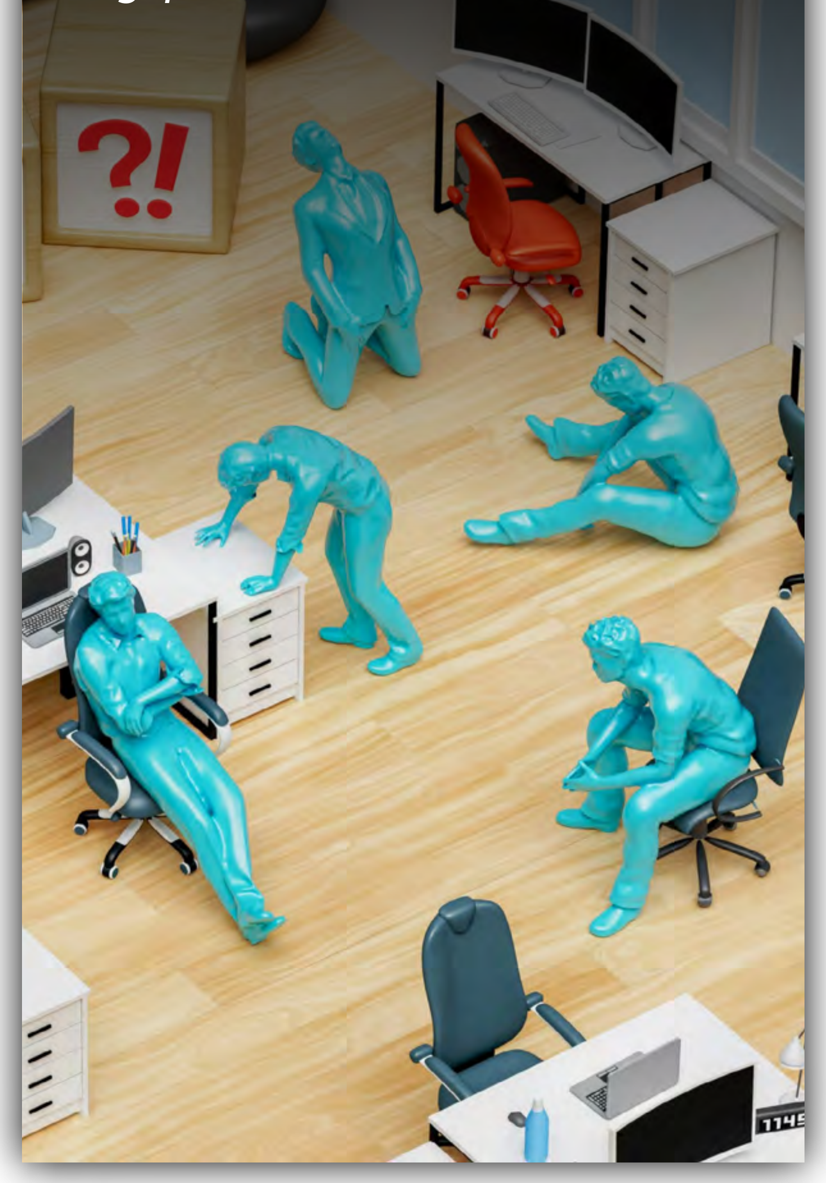
PERFORMANCE MANAGEMENT

The psychological and anthropological lenses have the most direct implications for performance management. Because extrinsic, controlling rewards can crowd out intrinsic motivation, performance management should be designed, wherever possible, to support autonomy, competence and relatedness rather than simply to monitor and control. That means moving away from performance conversations that function purely as a mechanism for allocating a rating and a number, and towards ones that give genuine, specific feedback, set clear and achievable goals, and give people a meaningful say in how their objectives are set. This matters most, on Deci's original finding, for roles and tasks that people already find interesting and meaningful: the more intrinsically rewarding the work, the more carefully controlling, contingent reward needs to be handled, precisely because there is more intrinsic motivation available to crowd out.

Locke and Latham's goal-setting theory gives this a practical shape: clear, challenging and accepted goals, combined with regular feedback, are consistently found to matter more to sustained performance than the size of the reward attached to them. This is a genuinely different design lever from the one reward functions are used to pulling. Instead of asking 'what is the right incentive for this goal?', the psychological lens suggests the more productive question is usually 'is this goal clear, challenging, and something the person has genuinely accepted, and are we giving them the feedback to know how they are doing against it?'

It also means taking seriously Kerr's original warning: organisations should audit what their performance management systems actually reward, not just what they say they reward, and close the gap between the two. Where an organisation's espoused diverge from what its measures and incentives actually reinforce, the anthropological lens is clear about the consequence: motivation collapses not because of the specific metrics involved but because the mismatch violates people's sense of organisational legitimacy. Closing that gap and making sure managers themselves understand what actually drives performance in their teams rather than relying on assumption, is likely to do more for motivation than any redesign of the rating scale.

Organisations should audit what their performance management systems actually reward, not just what they say they reward, and close the gap between the two.



5.3

MANAGING CULTURE AND CHANGE

The anthropological lens carries a further warning that is easy to miss in reward and performance design: organisations are rarely a single, uniform culture, and treating them as one can backfire.

This has a direct and somewhat paradoxical implication for reward and performance management. The more successfully a subculture fuses its members' identity with the group, the more effectively that group can resist change imposed from outside, including changes to reward, ways of working or performance expectations. This was captured by the British Airways employee quoted in Section 3.4. The same intensity of identification that made these employees so valuable to the airline also made them formidable opponents when the company tried to change their terms.

The practical lesson is to design change with subcultures explicitly in mind: understanding which groups are most tightly fused, what their implicit rules of fairness and legitimacy are, and involving them directly in shaping change rather than having it done to them. A reward or performance change that violates a subculture's sense of identity and fairness is likely to generate resistance out of all proportion to its practical content. This is the same dynamic, in effect, as the gift-exchange and psychological-contract breaches discussed elsewhere in this report, but operating at the level of the group rather than the individual.

Schein, Argyris and others identified the gap between espoused values and values in use. Employees tend to notice the gap too, even though they might not describe it in the same way. Reward is a strong signalling mechanism. It is not enough to change behaviour and culture on its own but if it is out of alignment, or worse, in conflict, with the culture a leadership team says it is trying to create, people will soon spot the discrepancy.

Taken together, these changes do not require reward functions to abandon the material dimension or the economic lens that has traditionally guided their work. They require reward functions to treat the cognitive, social and symbolic dimensions of reward, including the culture and subcultures through which symbolic reward is actually experienced, as a core part of the discipline, not an optional extra, and to invest in them with the same rigour currently reserved for pay.

Motivating people is an uphill struggle. People in professional and managerial occupations often forget that not everybody finds parts of their work fulfilling.

6.0 CONCLUSIONS

Motivating people is, and always has been, a core challenge for leaders. Aligning people to the goals set by the organisations' leaders has never been an exact science. The theoretical model of setting and cascading objectives then attaching incentives to them usually gets lost amidst the complexity of the modern organisation. Even if the senior team can reach a shared understanding of the corporate objectives and can find a robust way of measuring them, there are still many other factors that can make the link between pay and performance tenuous at best.

Motivating people is an uphill struggle. People in professional and managerial occupations often forget that not everybody finds parts of their work fulfilling. One doesn't have to be a Marxist to acknowledge that there is an element of compulsion in most work. Indeed, even the most rewarding job involves doing some tasks people would rather not do. We tend to treat de-motivation or lack of engagement as pathological but this is unreasonable. Expecting people to be motivated is a big ask. For a leader, it is more logical to start by asking what you need to do to encourage and motivate people, rather than questioning why they don't arrive at work bringing some intrinsic motivation to the table.

Kerr's fifty-year-old diagnosis – that we routinely reward A while hoping for B – has lost none of its force. If anything, the pressures bearing down on organisations over the next decade, such as shrinking and more demanding labour markets, greater volatility, and a workforce with genuinely renegotiated expectations of employers, make the cost of getting this wrong higher than it has ever been.

The reason the 'folly of reward' persists is not carelessness. It is that reward as a discipline has been built on a thin model of the person at work: a model drawn from neoclassical economics that treats people as rational actors who respond predictably to financial incentives. That model is not wrong, but it is incomplete.

The four lenses set out in Section 3 build a richer model of the person at work. Economically, people respond to real incentives but satisfice rather than optimise, and even the managers designing reward systems have limited insight into what actually drives performance in their own organisations. Psychologically, extrinsic reward can crowd out the intrinsic motivation it was meant to reinforce, especially for work people already find meaningful. Sociologically, pay is only ever partly a market phenomenon. As Barbara Wootton showed seventy years ago, much of what people are paid reflects social power, status and habit rather than scarcity, and what drives motivation is less the pay itself than whether it is felt to be fair against a reference group that can shift abruptly, as it did after 2008. Anthropologically, the meaning of reward is culturally constructed, organisations are rarely a single culture but a patchwork of subcultures, and the most tightly bonded of these can resist change with a loyalty and intensity that leaders underestimate at their peril.

Mapped onto reward practice, these lenses resolve into four dimensions of reward- material, cognitive, social and symbolic, of which only the first currently receives investment in proportion to its importance. None of this argues for abandoning pay, benchmarking or performance-related reward. It argues for rebalancing. The material dimension is necessary but has rapidly diminishing motivational returns once pay is perceived as adequate and fair; the cognitive, social and symbolic dimensions are comparatively starved of investment despite offering, pound for pound, a substantially greater motivational return. Reward functions that continue to treat motivation as a problem to be solved primarily through pay will continue to be surprised by the gap between the behaviours they reward and the behaviours they actually want.

The practical implications set out in Section 5, on pay design, performance management, and managing culture and change, are a starting point, not an end point. Reward leaders do not need to wait for a grand redesign to begin closing the gap between the thin model and the richer one: testing whether pay is felt to be fair rather than simply benchmarked correctly, performance conversations that build competence and autonomy rather than simply allocate a rating, and change programmes designed around an organisation's real subcultures rather than an assumed single culture, are all changes that can begin now. The findings of PARC's recent reports, referenced in this paper, and our assessment of the evolution of the business environment and labour markets suggest that the next five to ten years will be more challenging for companies than in recent decades. Organisations that make the shifts we have discussed in this paper are likely to be the ones best placed to thrive by attracting, retaining and motivating their people.

In PARC's Future Reward Leader report (2023) we identified four areas in which Reward leaders needed to up their game:

1. Strategic understanding of global forces and their impact on the business.
2. Thought leadership and the building of a shared understanding within the business.
3. Creativity in coming up with innovative solutions and leading the conversation.
4. Confidence and courage to balance conflicting interests and challenge where necessary.

Developing a knowledge and understanding of behavioural science outside the traditional Reward frame of reference is essential for 2 and 3. It will help with 1 and 4 too. As we said three years ago, Reward leaders need to ensure they are equipped to act as credible business leaders, and in a sustainably relevant way.

PARC'S MOTIVATION AND REWARD WHEEL

Purpose | Four lenses | Four Dimensions
A cycle for designing reward interventions that motivate

Start at the centre with purpose, and read each lens outward to its dimension of reward.
The case is to rebalance, not replace: material reward is necessary but has rapidly diminishing returns, while the cognitive, social and symbolic dimensions may offer greater return and are under-invested.

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