

MOTIVATIONS VS MONETARY INCENTIVES

pro-social behavior = a social behavior that
benefit[s] other people or
society as a whole

- helping, sharing, donating, co-operating, volunteering
- obeying the rules and conforming to socially accepted behaviors

Behavioral economics

In contrast to conventional economic theory, BE emphasizes the following:

1. People's behavior is not motivated solely by their own material payoffs, and issues such as perceived fairness and social norms often influence human decisions.
2. We act in a social context, and issues such as social approval and status are central motivators of human behavior.
3. People have cognitive limitations and therefore sometimes make seemingly irrational decisions.

NAPOLI (NAPLES) 2007



NAPOLI (NAPLES) 2011



Intrinsic and extrinsic motivations

basic Difference

Intrinsic motivations:

- absence of external rewards
- motivations that come from 'within the person's attitude'

Extrinsic motivations:

- motivations that come from 'outside the person'
- behaviors instrumental in obtaining an external reward

Intrinsic motivations

- Individuals whose benefit function is directly and positively influenced by the well-being of others, (Becker's (1974) pure altruists)
- People who perceive a 'warm glow' from their pro-social behaviour - Andreoni's (1989, 1990) impure altruists who, by contributing to the public good, 'get some private good benefit from their gift per se, (like a warm glow')



Siate egoisti, fate del bene!

Fare del bene è il miglior modo per sentirsi bene.

Dare una mano a Opera San Francesco significa dedicare una parte del proprio tempo e delle proprie risorse a chi ha bisogno di aiuto e può ricambiarci solo con un sorriso o uno sguardo di gratitudine. Significa dare speranza e fiducia e, per questo, sentirsi meglio.

Intrinsic motivations

- Agents driven by intrinsic motivations are interested in neither pecuniary rewards nor peer (social) approval.
- They do not expect **any external rewards** for their actions but merely obey 'individualistic based altruism'

Extrinsic motivations

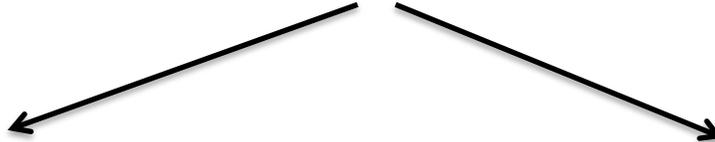
- Reasons that are ascribable to 'perceived external pressure'
- Motivations related to the individual's need to gain external rewards, either economic or in term of social appraisal. → reputational concerns
- Crucial property: dependency on the visibility of the pro-social behavior.
 - ⇒ No external rewards will be perceived if the behavior is hidden

Reciprocity and social norm

- People may be moved by a sense of reciprocity so that their pro-social behavior depends on the behaviour of others within a given group
- Social norms and reputational motivations as triggers for people's pro-social behaviour:
 - the desire to achieve a good self-image (essentially intrinsic)
 - the desire to gain the respect and approval of others (essentially extrinsic).

CROWDING OUT – CROWDING IN

pro-social behavior is costly



External monetary incentives increase pro-social behavior (relative price effect)

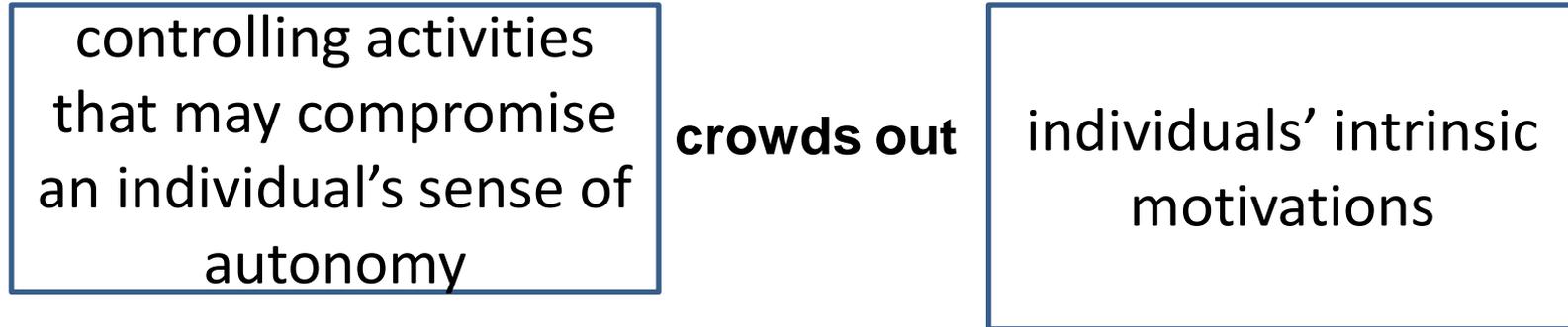
External monetary incentives decrease pro-social behavior through 'motivation crowding-out effect'

The final net effect will depend on the magnitude of the two effects.

The relative price effect can even be reversed.

INTRINSIC MOTIVATIONS

CROWDING OUT – CROWDING IN



INTRINSIC MOTIVATIONS

CROWDING OUT – CROWDING IN

- Titmuss (1970): reported that many blood donors stopped donating after payment for their activity had been introduced
- Gneezy & Rustichini (2000): conducted a field experiment in Israeli kindergartens, where parents often picked up their children late: they came even later after a fine was introduced.

INTRINSIC MOTIVATIONS

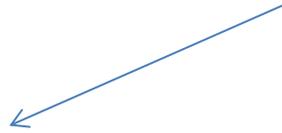
CROWDING OUT – CROWDING IN

- Monetary incentives may induce moral disengagement, activating payoff-maximizing modes of thought
- The introduction of a monetary incentive is a signal (price) of the value of individuals' pro-social actions
⇒ the crowding-out (crowding-in) effect might prevail if the price offered is considerably lower (higher) than the value estimate people have of their behavior.
Bolle and Otto (2010)
- External incentives may affect how people learn new social behaviors

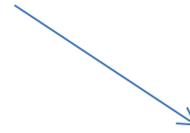
EXTRINSIC MOTIVATIONS

CROWDING OUT – CROWDING IN

The effectiveness of monetary incentives crucially depends on visibility Ariely et al. (2009).



Visible action:
social approval can be
converted to social
stigma
Crowding-out effect



Hidden action:
the relative price
effect increases pro-
social behavior
Crowding-in effect

POLICY IMPLICATIONS

Policy interventions should respond both to people's reactions to economic incentives and to the psycho-social content of preferences.

- ✓ If individual motivations towards that behavior are mainly intrinsic, monetary incentives, both positive (rewards) and negative (fines) can crowd-out the intrinsic motivations → government educational and information programs

POLICY IMPLICATIONS

- ✓ Importance of a visible and non visible behavior:

for example, if a government considers a tax benefit policy to facilitate the adoption of a new environmentally friendly technology, it should expect the policy to be more successful for promoting a nonvisible technology, such as environmentally friendly water heaters, relative to a visible technology, such as hybrid cars.

What about motivations different from monetary ones in workplace?

- Standard assumption: people work hard only if they receive monetary compensation for doing so.
- Substantial body of evidence: it is wrong to focus exclusively on material incentives.

- Workers appreciate monetary rewards
- They also get utility from what (they believe that) others think about them.

Employers can pay their workers



with a combination of monetary rewards and respect.

Workers respond to:

- attention
- symbolic rewards
- trust

Workers sometimes respond negatively to what they perceive as:

- signs of disrespect,
- including intrusive managerial control
- and even, in some cases, monetary incentives

Ellingsen, T., & Johannesson, M. (2008). Pride and prejudice: The human side of incentive theory. *American Economic Review*, 98(3), 990-1008.

SYMBOLIC REWARDS

Markham, Steven E., K. Dow Scott, and Gail H. McKee. 2002. "Recognizing Good Attendance: A Longitudinal, Quasi-Experimental Field Study." *Personnel Psychology*, 55(3): 639–60

Study on absenteeism, conducted on 1100 workers in four cut-and-sew garment factories in the mid-Atlantic area

Comparison between the effect of a public recognition program and the effect of three types of standard controls.

The public recognition program considered three main ingredients:

- personal attention
- public celebration
- mementos

PERSONAL ATTENTION:

- All employees with perfect attendance during an entire month had their names posted with a gold star for that month
- Employees with no more than two absences received a personal card notifying and congratulating them.

PUBLIC CELEBRATION:

At the end of the year, a public wide meeting recognized good and perfect attendance

MEMENTOS:

- Employees with a perfect attendance record received engraved gold necklaces (females) and penknives(males)
- Employees with a good attendance record received similar mementos in silver.

RESULTS:

- The program reduced absenteeism by about 40 percent and was popular with the workers.
- The three control treatments produced only insignificant changes in absenteeism.

If monetary incentives are too weak, they would be interpreted as disrespectful and could even backfire.

Individual material incentives only work well if they are sufficiently strong or if the employer can use other means to counteract the impression of disrespect; otherwise, symbolic rewards can be more suitable.

ATTENTION

The so-called Hawthorne experiments were carried out between 1924 and 1932 at the Hawthorne Works, a plant of the Western Electric Company near Chicago

Initially set out to investigate the effect of working conditions—such as lighting—on productivity.

Both more and less light appeared to cause higher worker effort

When workers were interviewed about their motives, a common response was that they were pleased to receive so much attention and therefore tried to do their best

TRUST

Stogdill, Ralph M., and Alvin E. Coons, eds. 1957. Leader Behavior: Its Description and Measurement. Columbus OH: Bureau of Business Research, Ohio State University.

- High levels of supervisor trust, friendship, and respect are associated with better performance

Case of Svenska Handelsbanken, one of Sweden's largest banks, under the leadership of Jan Wallander.

In 1970, soon after taking over as chief executive officer, Wallander delegated most lending decisions all the way down to the personnel at each local office, arguing that trust promotes initiative and trustworthiness.

The strategy helped turn around the troubled bank. Since then, the bank has remained highly profitable.

David Packard's (1995, p. 135) account of how he became convinced that General Electric had made a mistake in distrusting their employees. "GE was especially zealous about guarding its tool and parts bins to make sure employees didn't steal anything."

As a result, stealing became almost like a sport. When Packard started Hewlett and Packard "[T]he GE memories were still strong and I determined that our parts bins and storerooms should always be open."