

# Carrots and Sticks: What Incentives Really Work?



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# **Why ask this question?**

**Russian scientist Ivan Pavlov (mid-late 1800s) showed that animals could be trained to anticipate reward on the basis of cues.**

**This approach (behaviorism) would dominate Western psychology for the next 50 years.**

**This notion—using carrots and sticks to elicit desired behavior still persists.**

# Pavlov's Famous Dog



**Who is this guy?**

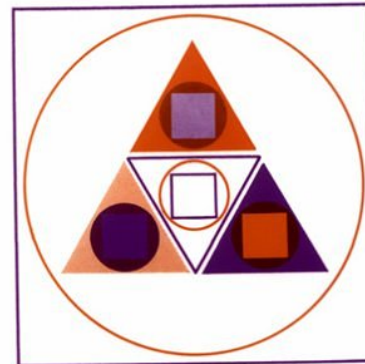




# Frederick Winslow Taylor


## *The Principles of Scientific Management*

*Frederick Winslow Taylor*



"Taylor's book is not merely the precursor of modern organization and decision theory, it is in many respects its origin... A seminal work: an often misinterpreted work: and an indispensable source of administrative theory."

— Arch T. Dotson, Cornell University



**“Work consists of mainly simple, not particularly interesting, tasks. The only way to get people to do them is to incentivize them properly and monitor them carefully.”**

**Pretty much true in the 1900s – but now?**



# **Why do we still follow Taylorism?**

- Many managers still believe in Taylor's notions of efficiency, finding the one "best" way of performing a task.
- We buy into it when we feel guilty for daydreaming or not working heads down for long periods of time ☹! (A plug for my Thinking tutorial 😊!)



# **Enter Harry Harlow**

**Experiment in 1949 with rhesus monkeys.**

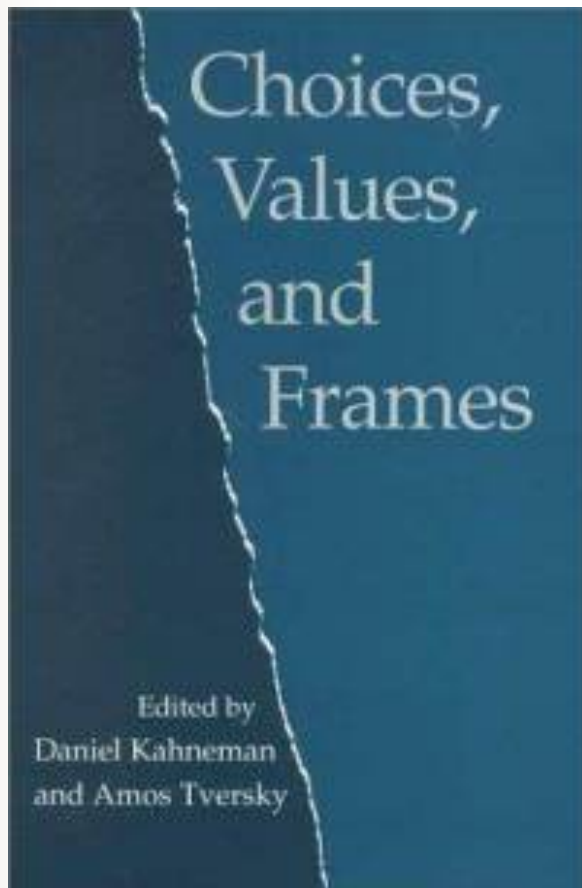
**The performance of the task provided its own reward – intrinsic motivation.**

**Further experiments showed that giving rewards decreased motivation.**

**Results ignored by scientific community for TWO DECADES ☹!**



# Kahneman & Tversky



Their “prospect theory” in 1979 lead to the creation of behavioral economics.



# **Ultimatum Game**

**Pair of subjects, S1 and S2**

**S1 has an amount of money, e.g. \$10 and  
can offer S2 a part of it**

**S2 has right of refusal - if offer not  
accepted, neither subject gets anything.**

**We are not “rational” decision-makers.**

**Ernst Fehr, Armin Falk, and Matthew  
Rabin studied “fairness.”**



# **Fairness Counts – even with monkeys 😊!**

[Videos\Grape and cuke.flv](#)



## **The benefits(?) of incentives**

**In a program sponsored by Pizza Hut that promises free pizza to children to induce them to read, children were likely to pick books that are short and simple, to plow through them quickly rather than coming to appreciate the pleasures of reading.**

**Teresa Amabile - HBS**



# **Unintended consequences**

**Fat kids who don't like to read.**

**Cobra Effect**

**Pigs at Ft. Benning, GA**





## **Steve Levitt - Freakonomics**

**No individual, no government, is ever going to be as smart as the people who are scheming against you. When you introduce an incentive scheme, no matter how clever you think you are, there's a pretty good chance that someone far more clever than you will figure out a way to beat the incentive scheme.**



# Dan Ariely

- Experiments with small, medium, and large bonuses show negative correlation with performance of complex tasks.
- Results shown to Stanford MBA students & executives at large companies—all failed to intuit negative correlation.
- Even educated, intelligent, high-level individuals continue to believe the larger the bonus, the more effective.



# **Any positive results at all?**

**Only for simple, mechanical, assembly-line tasks.**

**Or when the incentive and result are close.**

**Ice skating**

**Google - pays for exploiting its browser**

**Zappos - \$3K bonus to quit**



## **Loss aversion also works**

**One group of factory workers told they would receive a bonus if they met a target.**

**Second group told they had “provisionally” been awarded a bonus, but would “lose” it if they failed to meet the target.**

**Second group worked harder to meet target.**

**Tanjim Hossain of the University of Toronto and John List of the University of Chicago**



# **A word from Neuroscience**

The pleasure center in the brain is activated by financial compensation.

The altruistic center, involved in cooperation, is located in a different area of the brain.

**Cannot activate both centers at the same time. When there is conflict, the pleasure center wins hands down.**

Studies have shown that when rewards are on the line, people are less helpful toward others.





# **Fixated on the reward**

**A high school in Michigan started a pilot project to improve overall attendance. On a random day in the last week of each semester teachers whose classes had at least 80% of their students in attendance would be rewarded with a 12% bonus. This was enough to change the focus for the teachers from the educational experience in the classroom to meeting the numbers and getting the bonus.**



# Motivation 0.0

**CEO: What's happening in Baltimore?**

**Revenue there is up 20%**

**VP: I'm pretty sure I put up a poster there last month—the one with the rowers all pulling in the same direction.**

**CEO: Ah, yes. That's one of my favorites. Well, put up twice as many posters, and double everyone's quotas!**



## **A few months later...**

**CEO: What's up with Philadelphia? They don't seem to be motivated by the posters.**

**VP: Well, we've had a problem there. No wall space.**



## **Incentives are a poor substitute**

**Managers often use incentives instead of giving workers what they need to do a good job.**

**Treating workers well—providing useful feedback, social support, and room for self-determination—is the essence of good management.**

**Dangling a bonus in front of employees and waiting for results requires much less effort.**



# Pygmalion Effect

**“The way managers treat their subordinates is subtly influenced by what they expect of them.”**

**J. Sterling Livingston, “Pygmalion in Management,”** *Harvard Business Review*, Sept/Oct 1988.

**Every action a manager takes and every decision a leader makes supports or undermines perceived levels of status, certainty, autonomy, relatedness, and fairness among workers.**

**Michael Feathers: Catch them doing something right.**





## **Katzenbach and Khan – studies of elite military units**

**Money is better at attracting and retaining people than influencing behavior. The more you rely on money, the more you encourage self-serving behavior.**

**Most effective way to motivate work behavior - focus on how people feel about the work itself.**

**Emotional commitment dwarfs rational compliance: respect of peers, admiration of subordinates, approval from personal network and community.**

**Do all animals need a  
sense of purpose?**





# **Need for purpose runs deep**

**Researchers at Rush University Medical Center in Chicago found people who felt more purpose in life reduced their risk of Alzheimer's by 50%.**

**Sense of purpose—"psychological tendency to derive meaning from life's experiences and to possess a sense of intentionality."**

# Lego Robot Experiment







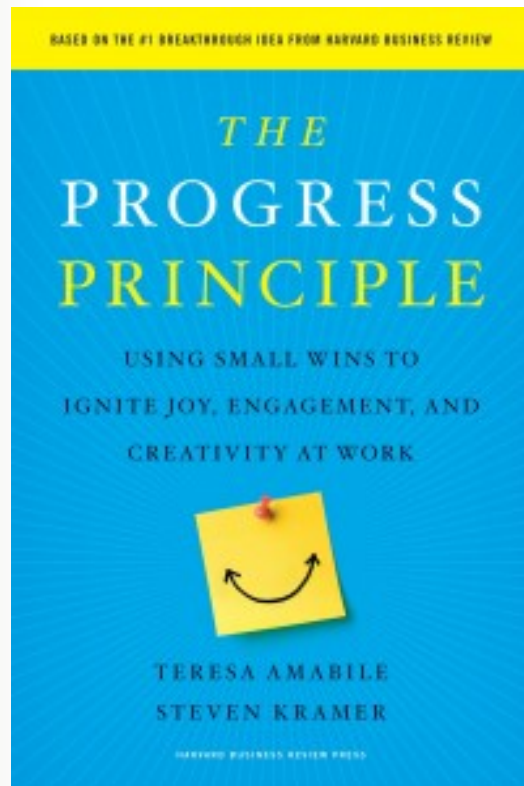
# **Killing the Joy**

**If you take people who love something and place them in meaningful working conditions, the joy they derive from the activity is going to be a major driver in dictating their level of effort. However, if you take the same people with the same initial passion and desire and place them in meaningless working conditions, you can easily kill any joy they might derive from an activity.**

**Dan Ariely**



# Progress in meaningful work



Of all the events that can deeply engage people in their jobs, this is the single most important.



# How would you vote?

1. Recognition for good work
2. Incentives
3. Interpersonal support
4. Support for making progress
5. Clear goals



# Next Steps

- It's not about carrots and sticks.
- It's about purpose, and making progress in meaningful work. It's about joy.
- Look for small wins – these are powerful.
- Listen to your team – that alone is beneficial.
- Stay open. Keep learning.
- Have a grateful heart.
- Thanks for listening 😊!