Behavioral Incentives and Their Influence on Employee Performance

JUAN DE RUS

Neovantas

A 2020 Gallup report states that almost 85% of employees globally are not engaged. Companies tend to reward behavior outside of individuals’ control and without considering their core psychological needs, such as a feeling of belonging at work. Many jobs include monotonous tasks and can benefit from an incentive system to support employee motivation. For this purpose, we designed an experiment in an organization in Spain. Our interventions included a calculator, a piggy bank, and a ranking system among employees, using behavioral science principles of loss aversion, endowment effect, framing effect, social norms, and money priming. Our research suggested that a modification in the incentive architecture has the potential to improve employee performance without increasing costs for the company.

Introduction

Despite a fast-changing world, many organizations are applying old performance management strategies (e.g., many just give feedback to their employees one or two times per year, and the employee’s performance goals are often not well defined or individualized). These outdated management strategies reportedly only motivate two out of ten employees to do extraordinary work (Gallup, 2021). Moreover, companies often consider purely monetary rewards for performance, i.e., a total reward approach, which includes monetary and immaterial components, is not yet widely used. However, “if an organization embraces a total rewards strategy, they can reinforce the desired behaviors that contribute to organizational success. A total rewards strategy that addresses employee needs enhances productivity, since satisfied employees tend to be more productive. Additionally, there is a direct correlation between employee satisfaction and customer satisfaction, which should enhance company performance” (Kaplan, 2005, p. 34).

In this article, we will explain a case study in a Spanish organization in which we tested whether employees’ performance could be improved by minor modifications to the incentive architecture, based on behavioral science principles.

Theoretical Foundation

The classic economic approach considers incentives fundamental, with their strength deriving from their ability to predict how individuals modify their behavior (Fehr & Falk, 2002). According to this notion, the individual responds directly to any increase in incentives with an increase in effort at work or in the activity carried out (Grant, 1999).

However, this traditional approach is not complex enough to capture behavior in relation to incentives among other factors that may influence motivation and the nature of tasks.

The Theory of the Self

The theory of the self (Ryan & Deci, 2000) establishes that there are three psychological needs (competence, autonomy, and relationships with others) which, when satisfied, positively influence intrinsic motivation and well-being. In addition, it determines that individuals will be intrinsically motivated by the activities that interest them.

Goal Setting Theory

Goal setting theory (Locke & Latham, 2002) looks at how establishing the importance of task commitment improves performance. This commitment is influenced by three factors: external influences (authority, peer influence, and incentives), interactive
Behavioral Incentives and Their Influence on Employee Performance

Juan de Rus

Behavioral Economics Guide 2022

Factors (participation and competition), and internal factors (internal expectations and rewards) (Locke et al., 1988).

It was important to consider these theories of social psychology as inputs into the design of the new incentive scheme. Additionally, we must not ignore two fundamental factors, namely, the intrinsic motivation of individuals and the nature of tasks.

To motivate people to perform well, it is important to gain insights into their motives. What motives play a role in the work situation? We can identify two types of motives: intrinsic and extrinsic.

Intrinsic Motivation

Regarding intrinsic motivation, some authors have shown that—in certain circumstances—standard incentives (money) can be counterproductive. For example, assuming that the task is inherently interesting, and the employee’s behavior is altruistic, incentives that are too large or stressful to attain substantially reduce intrinsic motivations, thereby leading to reduced productivity. This is also known as either the ‘crowding out’ effect or an ‘over-justification’ effect (Ariely et al., 2009; Frey, 1997; Goette & Stutzer, 2008). Therefore, we can conclude that, for some tasks with high intrinsic motivation, economic incentives are not always necessary, and sometimes they can be counterproductive.

However, in the workforce, it is not uncommon for individual employees to face tasks that do not motivate them. For example, in the call center industry, there are many monotonous and routine tasks that are traditional to that industry. For example, agents must deal daily with hundreds of calls, most of which are often very similar to each other. It is a job that, due to its nature, is sometimes valued as unrewarding and stressful, which in some situations leads employees to fail to achieve the objectives set for them (Deloitte, 2021). Furthermore, the turnover of sales representatives in a call center is around 37% during the first six months, and it costs $8,800 to re-recruit and train a new agent (Liveops, 2018). General dissatisfaction and high employee turnover in this sector represent a major challenge, as sales representatives have close contact with the end customer, which is likely to correlate with customer service quality (Randstad, 2015).

Considering the above, our hypothesis is that, by investing in a better behavioral approach in terms of incentives in this kind of organization, employees will be able to handle their work more efficiently, effectively, and happily. However, it is essential to understand the specific context in which this new incentive's system will be applied (Kamenica, 2012).

Applying Behavioral Science to Create an Impact

After a series of interviews and focus groups with employees, it was concluded that current incentives not only demotivated them, but they were also counterproductive to achieving objectives, since the sales representatives considered them confusing and unattainable, which in turn increased their daily frustration. For this reason, we considered it essential to adapt the incentives’ architecture so that they would once more act as a tool for managers to use in order to improve their sales representatives’ performance. For this purpose, the incentive system that existed at that time was analyzed to evaluate if it was in line with some fundamental aspects of behavioral science that could influence employee perception.

We implemented three features in consideration of some biases, and these are explained as follows.

Incentive Calculator

The experiment was designed in such a way that the calculator already showed the total amount that an employee could earn every month and depending on their performance on each day, this amount could be reduced if the set objectives were not achieved. This is termed loss aversion, and it highlights that the pain of losing something is psychologically equivalent to twice the pleasure of gaining it; therefore, individuals try harder not to lose it than to gain it (Kahneman & Tversky, 1979). Furthermore, the framing effect was considered. All choices can be formulated in a way that highlights their positive or negative aspects (Kahneman & Tversky, 1979). Therefore, a measure was designed to use positive vocabulary to motivate agents (e.g., ‘If I continue at this rate, what incentive will I get?’, ‘This is what I have to date’, etc.)
Behavioral Incentives and Their Influence on Employee Performance

Juan de Rus

Piggy Bank
People in the experimental group were given a piggy bank containing the maximum incentive they could receive every month, and depending on daily performance, the team leaders withdrew or included token money in the piggy bank. This was intended to strengthen the loss aversion principle and the endowment effect, whereby people assign a higher value to things when they establish ownership over them (Kahneman et al., 1991). Moreover, it considered the priming effect, which demonstrate that information, and patterns stored in memory become more accessible through the presentation of certain stimuli. By activating certain schemes, behavior can be influenced to a certain extent. Thus, money priming shows that people reminded about money shift into a professional, business, and work mentality, and they expend effort on challenging tasks, demonstrate good performance, and feel efficacious (Vohs, 2015). Research shows that the largest money-priming effect occurs when people actively handle money (Lodder et al., 2019).

Comparative Ranking With Peers
Every week, a ranking was published along with the incentives achieved by the agents. In this case, it was necessary to take care of the possible lack of motivation on the part of those with lower incentives and who did not reach the levels attained by the top agents, which is why, every month, the greatest positive variations were highlighted (i.e., sales representatives who occupied the lowest positions in the ranking and who had improved). This helped maintain the motivation of the whole team, because motivation tends to be a process of social comparison in which effort and results, or rewards received by a person, are considered, and compared with the results of, and efforts made by others (Festinger, 1954). In behavioral science, different authors mention the importance of social comparison in establishing adequate incentives. Recent empirical studies argue that the comparison of income and perceived incentives affects the assessment of life satisfaction (Clark & Oswald, 1996; Luttmer, 2005; Clark et al., 2008; Clark et al., 2010). Moreover, as stated previously, goal-setting theory emphasizes the importance of peer influences, participation, and competition in relation to improving performance.

Implementation of the Intervention and Results
Our experiment tested the effectiveness of this new incentive architecture by selecting a group of sales representatives for our experimental group. Along with the standard information the company distributed to all employees, the treatment group also received the incentive calculator, a comparative ranking with the rest of their peers and the piggy banks with some fictitious money. The control group, on the other hand, only received the standard information. It is important to note that the potential amount of the incentive was similar in both groups.

The experiment consisted of 360 sales representatives and 16 team leaders in the control group, and 60 sales representatives and three team leaders in the experimental group. By reviewing the previous performance on the sales ratio of sales representatives, we ensured that the experimental group and
the control group were similar before the experiment. The sales ratio was calculated as the number of sales divided by the total amount of incoming calls handled by the sales representative in that period.

The experiment was successfully carried out for a full month. During that time, individuals in the experimental group achieved a sales ratio of 3.56% of total incoming calls, while the sales ratio for the control group was 3.26% of total incoming calls. Hence, the new incentive architecture improved the sales representatives’ performance by 10%.

After these initial results, the company decided to implement the new incentives architecture to the whole team (more than 4,000 employees) obtaining an overall improvement in the sales ratio of around 16% compared to the previous period.

### Ethics and Further Considerations

Our work resulted in a transparent win-win situation for both the company and the employee, since

---

2 We were unable to establish statistical significance for these results due to the circumstances of the project. The top management of the company did not allow a greater sample size for the experiment to avoid distractions and they preferred to see an initial business impact before rolling out to the whole team. Sometimes, operating in the real world, we must decide on a particular course of action based on limited or suboptimal evidence.

3 Once the new system was implemented for the whole team, we were not able to isolate how much of this improvement was due to the new incentive’s architecture and how much was coming from other initiatives and external factors.
we experienced an improvement in the company’s bottom line and in sales representatives’ salaries. Moreover, information was fully transparent since all sales representatives and supervisors were fully informed about the experiment.

As stated in the introduction, companies often focus on pay-for-performance, which exclusively applies to monetary rewards and often considers material components. We tested and implemented a new incentive architecture that relied on multiple behavioral science principles. Future research would have an opportunity to look at the separate rather than combined impact of these nudges. There are also several other non-material reward components that could be tested in further experiments. One example, which combines material and non-material components, is the ‘cafeteria system’ (Beke et al., 2014).

In this system, employees can opt for rewards that are most attractive to them, according to their needs. Some options in this regard include:

- Money for time: unused or saved vacation time is paid out.
- Time for money: employees can retire early or “purchase” extra days off.
- Work arrangement: employees arrange their own working hours.
- Monetary arrangement: employees receive part of their pay in savings schemes or shares.
- Additional arrangement: employees receive a meal plan or a grant towards their children’s education.

A modern reward system must appeal to a person through material and non-material components. This also supports the idea of a total reward strategy, which includes individual growth, a bright future, total pay, and a positive work environment (Jiang et al., 2009).

**Remote Work: A Threat or an Opportunity?**

The pandemic has accelerated the trend for increased remote working—with many companies forced to adapt faster than they expected to do (one out of four companies said they experienced lower agent performance and longer hiring and onboarding cycles as a result). Despite these challenges, contact center leaders are realizing that the benefits of remote working are worth the effort. By embracing the work-from-home model, companies can often find both better qualified and less expensive employees while offering the flexibility that workers require. In total, 77% of service organizations are either adopting or accelerating their work-from-home programs. Before the pandemic, only 6% of agents, on average, worked from home (Deloitte, 2021).
Further studies, taking remote working into account, will need to be undertaken. However, our work is an excellent initial step toward handling new work challenges, as we have shown how aspects of behavioral science, such as loss aversion, endowment effect, framing effect, priming, or social comparison could have an impact on employees’ performance—and therefore on the company's bottom line. Also, we explained how incentives can influence employees' internal and external motivations.

All tangible factors that were included in the intervention, such as the piggy bank or the printed rankings, should be adapted to the remote working environment through the use of digital tools. However, it would be important to test the effectiveness of this digital version of the intervention.

Maintaining Motivation in the Long Term

One of the future challenges of this type of intervention is to maintain the impact over time. In our case, for further research endeavors, we suggested periodic reminders or slight modifications that would allow the impact to not be substantially reduced (Karlan et al., 2016; Cialdini, 2016).

Moreover, we are aware of the priming effect, and we suggest that the effects of money-priming should be considered, i.e., people reminded of money may shift into an independent work mentality; they may exert effort on challenging tasks, demonstrate good performance, and feel efficacious. Also, they are less interpersonally interested and less willing to help. People primed with money work independently, even when they are given the option of turning to someone else for assistance. They are not perceived as prosocial, caring, or warm (Vohs, 2015). Research shows that there is a large money-priming effect when participants actively handle money (Lodder et al., 2019). As we did not test the effect of our intervention in the long term, it is important that companies pay attention to the potential spillover effects of this new reward system.

THE AUTHOR

Juan de Rus is a Director and Partner at Neovantas and an adjunct professor of Marketing and Consumer Behavior at Universidad Carlos III de Madrid. Juan holds a Master's in Behavioral Science with distinction from the London School of Economics and an MBA at Universidad Carlos III de Madrid. He is also a certified member of GAABS. He leads the behavioral science practice at Neovantas with a focus on commercial influence in digital and remote processes in the banking, insurance, and telecommunications sectors.

ACKNOWLEDGMENTS

Thank you to Johanna Kunert, last year’s student of business psychology and currently doing her internship at Neovantas, for her great contributions to this article. Additionally, a huge thank you is extended to the Neovantas team involved in this specific project and to the members of our Behavioral Economics Hub for their additional insights and recommendations.

REFERENCES


