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# Anti-Incentives: The Power of Resisted Temptation

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***By Ian Ayres***

**Normally we think that offering people money to do something will induce them to do more of that thing. But the Zappos "Offer" suggests that sometimes dangling a carrot to do something can have the opposite result. By resisting an initial temptation, what we call an "anti-incentive," employees might learn something about themselves and want to prospectively act in accordance with this new self-conception.**

The CEO of Zappos, Tony Hsieh, has enhanced employee commitment by offering a contingent reward offer that costs very little because most employees turn down the offer.[2] Zappos, which started in 1999, is now the nation's largest on-line seller of shoes, with gross sales of more than $800 million in 2007. Its meteoric rise in sales is all about its superb customer service. My co-blogger, Steven Dubner, at the *New York Times* Freakonomics site tells of the story of his wife's purchase of a pair of ill-fitting sandals. Zappos not only offered to refund the price and to pay for return shipping, it also offered to send her a $25 coupon toward her next purchase. Then, in a modernization of *Miracle on 34th Street*:

*Zappos also offered to try to locate a pair of the sandals in her size from another vendor. (Hah! Sure, they will!) Fifteen minutes later, the company called my wife and told her they'd found her sandals, in her size, at another online merchant — "and," the Zappos clerk told her, "they're even cheaper at this other site!"*[3]

How can you fill a company with employees like this who are willing to go the extra mile? One way is to bribe them to leave.

At the end of the first week of a four-week training course, new Zappos employees receive "The Offer": In addition to paying them for the time they've already worked, Zappos will pay them $4,000, no strings attached, to quit. We're used to giving employees bonuses to encourage employees to stay on the job. But Zappos is dangling a substantial "quit now" carrot that it hope trainees will refuse.

In part, the company is using the offer as a screening device. "If you're the kind of employee who prefers a quick four grand to the opportunity to work at a great company like Zappos, we don't want you." In part, Zappos is doing it to credibly signal that working long-term for Zappos really is worthwhile. (I don't recommend that McDonald's offer $2,000 to its new trainees.)

But what's really interesting to me is the psychological impact of "The Offer." By turning down the bribe, trainees signal to themselves early in their Zappos careers that they value their jobs. The act of turning down the Offer increases the employees' internal commitment to the company and to succeeding on the job. There are "carrots" too good to refuse and "sticks" too bad to accept, but the power behind the Zappos offer is that it is a very substantial offer that people can and do refuse. The vast majority trainees say no to the offer. By rejecting the offer, trainees learn that they value their future job even more. Rejecting the offer makes them feel better about their employer. And they are psychologically motivated to make good on that initial choice, by working hard to succeed.

Traditional economists like to say that sunk costs don't matter. But the idea behind the Offer is that a sunk opportunity cost (turning down the one-time bribe) can influence your future behavior. To reduce cognitive dissonance, people like their current choices to be consistent with their previous values.

**The Zappos offer suggests that resisting temptation can create a virtuous cycle where you want to be the person who continues to act consistently with that initial choice.**

The Offer on its face gives employees a reason for quitting earlier. But, while not yet tested systematically, the strategy probably keeps workers on the job longer as well. No one quits Zappos after three or four months. You'd feel like fool to quit for nothing after three months, when you could have quit initially for four grand.

The foregone Offer gains its power by creating a moment where new employees have to fess up to really valuing this opportunity. The TV show*Temptation Island* gleefully celebrated the failings of couples who give into temptation. But the Zappos offer suggests that resisting temptation can create a virtuous cycle where you want to be the person who continues to act consistently with that initial choice.

Of course, all this only works if most employees turn down the offer. It would be a pretty lousy idea if trainees left in droves after the first week. Zappos was worried about this too and the "quit now" bribe was initially set at just $100. When almost none of the employees accepted, they bumped the offer to $500 and then to $1,000, $2,000, $3,000 before raising it to its current level. But the amazing news is that only two or three percent of the employees cash out and accept the $4,000 offer. Traditional carrots can be expensive if they are successful. But Zappos has created a powerful carrot that is low-cost because it is so often unused.

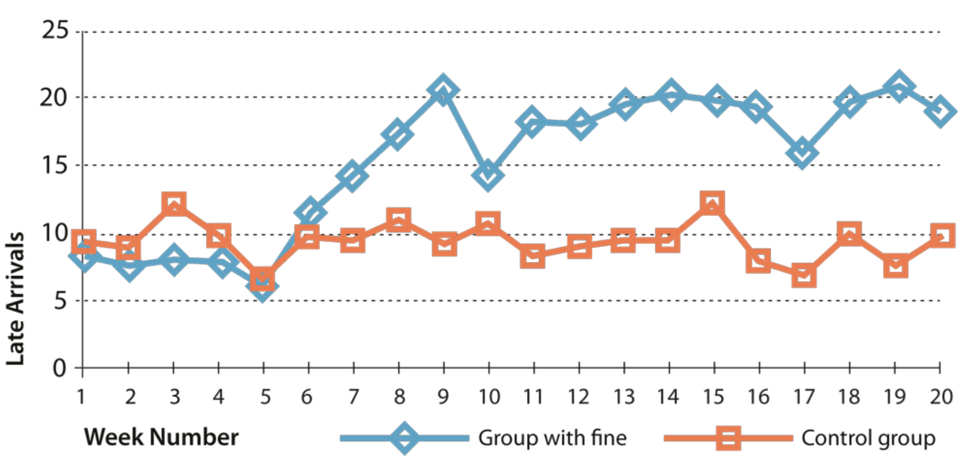
If the anti-incentive can work at Zappos, is it a tool that could be used successfully in other contexts? It is a question that is at least worth testing. For example, anti-incentives could also assist with smoking cessation. A traditional economic incentive would be a reward (say $5/cigarette) for smoking less or a tax (say $5/cigarette) for smoking more. The more perverse anti-incentives – such as a pledge to pay the smoker $500 if she quits a cessation support group or requiring a $500 payment to join – would facially give a disincentive to stop smoking. But by overcoming and acting against that disincentive, a smoker could enhance his or her internal commitment to the cessation process. Both incentives and anti-incentives are about guiding or channeling internal choice. The Zappos offer doesn't take the future offer to quit off the table, it just makes it psychologically less palatable. When you wouldn't quit for $2,000, it seems foolish to later quit for nothing.

## Anti-Incentives at the Daycare

Anti-incentives are particularly useful because traditional economic incentives can produce perverse results. Uri Gneezy, a business professor at the University of California at San Diego, has found in the lab that bribing people to work harder can backfire. He paid 160 students at University of Haifa 60 NIS (New Israeli Shekels, roughly $18 in today's U.S. dollars) for answering 50 questions taken from an I.Q. test. The control group was simply asked to answer as many questions as they could, while another randomly-selected group was offered about 3 cents (10 NIS cents) for each question they answered correctly. On average, students without the incentive answered 28.4 questions right. But students who could actually earn extra money for correct answers averaged only 23.1 correct answers. Offering the extrinsic reward undermined the students' intrinsic motivation to answer questions correctly. The pittance of three cents for not making a mistake seemed to insult some of the students – and twice as many students responded to the bribe by answering all of their questions incorrectly.

The good news is that more substantial carrots – bribes of 1 shekel (about 30 cents) per correct answer – spurred more effort, as randomly-selected students in this group answered an average of 34.7 (out of 50) questions correctly. Uri's title for the study nicely summed up his results: "Pay Enough or Don't Pay at All."[4] But the bad news is that studies of this kind suggest that for carrots to be effective, carrot contracts have to be fairly substantial (i.e., expensive) in order to work.

**Figure 1** - Average number of late-coming parents, per week




Source: Uri Gneezy and Aldo Rustichini, "Pay Enough or Don't Pay at All," 1156 Q. J. Econ. 791, 804 (2000).

One more reason to prefer sticks – the incentive that keeps on giving – is that it costs you nothing as long as the goal is met. But even sticks can produce perverse results. Uri was also behind a parallel study of 10 Israeli daycare centers to see the impact of imposing fines for picking up your kid late. Generally, the daycares in the study averaged about 8 late pick-ups a week. But after 4 weeks of observation, 6 of the 10 daycares were randomly selected and these centers announced that parents who were more than ten minutes late in picking up their kids would be fined about $3 (10 NIS), and that this amount would be added to their monthly bill. It's econ 101 that the fines should have reduced the number of late pickups. But look what happened:

The number of late arrivals sky-rocketed – more than doubling the tardy pickups within just a very few weeks.

Uri's daycare study is a direct challenge to the claim that "losses loom large." Here, adding on a financial fine didn't take the choice off the table – it seemed to make the option of coming late more available. What gives? Parents who were fined didn't need to feel as guilty about being late as long as they were willing to pay the "price." Uri and a cadre of other behavioralists are beginning to think that financial incentives can backfire when they interfere with altruistic and other social norms for doing the honorable thing. Before the fines, you were a "bad parent" if you showed up late to the daycare center and forced some of the caregivers to wait. But after the center started imposing fines, parents had more of a right to come late as long as they paid the fine – or at least, they didn't need to feel as guilty about showing up late as long as they were willing to pay their debt to society.

Uri's studies show that people can respond perversely to incentives. When you raise the price of an activity, you don't always get less of it. When you increase a subsidy for an activity, you don't always get more. Classical economics have trouble explaining these results, because they ignore the social context. Incentives can have perverse effect because they can also impact other people. What people think about you (or what you think they might think) can play a huge role in your likelihood of success.

**Only use cash incentives when social norms are weak or ineffective. Financial incentives can backfire when they interfere with altruistic and other social norms for doing the honorable thing.**

One response to the daycare problem is to limit the use of carrots and sticks to contexts where there are not strong independent norms for good behavior. Only use cash incentives when social norms are weak or ineffective. In fact, the daycares may have been more successful if they had taken a page out of Zappos's original playbook. They might have still used cash, but tried a kind of anti-incentive. Strange as it may sound, imagine that the daycare announced that whenever a parent came late they would force one of the (poorer) caregivers to pay money to the offending parent. The very injustice of the incentive scheme might reinforce the anti-tardiness norm. Instead of disrupting the guilt, the anti-incentive puts the potential guilt on steroids. Paying people to be late might produce less tardiness because parents care about other things besides money. They care about other people too.

Interestingly, an analogous anti-incentive has been proposed in a literary daycare setting. *In Little Men* (Louisa May Alcott's sequel to*Little Women*),[5] the school teacher Mr. Bhaer proposes a punishment for lying that he hopes will be harder for students to treat merely as a price. He tells Nat, "When you tell a lie I will not punish you, but you shall punish me. . . . You shall ferule me in the good old-fashioned way." And in fact, Mr. Bhaer later forces a distraught Nat to give him "six good strokes." In the story, Nat never lies again. Marine drill instructors are masters at incentive training where an entire platoon of recruits may have to hit the quarterdeck because a single member fails to lace his or her boot correctly.[6] Sometimes punishing the innocent changes behavior. The anti-incentive effect in this example is mediated by other factors. But a takeaway from this thought experiment is that when traditional incentives are ineffective, it doesn't mean that we should give up on the idea of pricing behavior. We might at least consider negative prices.

## Zappos Goes to Law School?

In a recent op-ed, Akhil Amar and I have suggested using the Zappos idea as a more traditional incentive to help respond to the crisis in legal education.[7] In constant dollars, tuition at private law schools nearly tripled over the last quarter century. Many graduates face a six-figure debt and can't find a job paying enough to service that debt. Especially troubling are allegations that some schools admit students they know are unlikely to repay their loans—leaving taxpayers (who guarantee some of these loans) holding the bag.

Some of these problems are not unique to law schools—they apply to much of American higher education. But law schools are engaged in a specific program of instruction, with a specific goal—passing the bar—as its purpose. Measuring and even predicting this dimension of success is more straightforward.

First, applicants should receive better information about how past graduates have fared. All students who received federal loans should be required to report whether they passed the bar as well as their annual salary for the first 10 years after graduation.

But more transparent information at the threshold of law school is only the start. An entering student believes that he will beat the odds and win the lottery. Once in law school, many may be inclined to double down on a bad bet unless schools intentionally structure a system of sober second thought.

Similar to Zappos, law schools might offer to rebate half of a student's first-year tuition if the student opts to quit school at the end of the first year. (If the student has taken out government loans, this rebate would first go to repay this debt.) A half-tuition rebate splits the loss of an aborted legal career between the school and the student. Each has skin in the game, so students will not go to law school lightly, and law schools will have better incentives not to admit students likely to fail.

Of course, it's a scary thing to offer half-tuition rebates. A law school's budget would be devastated if most of a first-year class accepted the offer. The cash-to-quit idea was initially scary to Zappos too. The shoe seller started out by offering trainees just $100 to quit, and gradually raised the quitting bonus only after seeing the results.

**Many law schools graduates face a six-figure debt and can't find a job paying enough to repay it. My suggestion is that Law schools offer to rebate half of a student's first-year tuition if they quit at the end of the first year, similar to Zappos.**

So if having a law school offer to rebate half a student's first-year tuition seems scary, regulators might think of starting by dangling just $4,000. Right now first-year students have the option of quitting for nothing – but might feel locked in to stay the (academic) course. Even a modest carrot to quit might make them pause and think twice before signing on to a second and third year.

Unlike Zappos, the law school offer to quit is a more traditional incentive. The idea is to mark the end of the first year, after students have received their grades, as a salient decision-making point. At that time, students will have learned more about their legal abilities and inclinations. Law schools will also have learned more about each student's abilities, and schools could now disclose how previous students with similar first-year grades fared after graduation. Students accepting the offer would be choosing to quit not just their school, but the pursuit of a law degree. Anyone who took the money but re-enrolled in another law school—within, say, five years—would have to repay the rebate. This would guard against the risk that good students would take the rebate and transfer to another school just to reduce their cost of becoming a lawyer.

After a few years, law schools could disclose what proportion of students, with varying grade profiles, accepted the rebate offer. They could even disclose the salaries of the former students who had accepted the rebate offer and left the school. This comparative disclosure would provide applicants with powerful new information to make better decisions about whether to continue their legal careers.

Our proposal for enhanced decision-making also is unusual because it suggests giving students better information about the "opportunity cost" of continuing their legal education. Akhil and I proposed that people with government loans be required to report back their salaries for 5 or 10 years whether or not they complete their law school education. This information (combined with some predictive analytics based on a student's entering credentials and first-year grades) would let law schools give first-years a better idea of their prospects on both sides of the decision tree.

Rick Brooks and I showed in this 2005 article how information about entering credentials could produce a grid with predictions about the probability that an entering student will become a lawyer.[8] With the added information of first-year grades and salaries for both those who continue and those who drop out, law schools could provide better predictions about the value of the legal opportunity as well as the opportunity's cost.

The government as lender might mandate first-year rebate offers to reduce the chance that students will take out loans that they will not be able to repay. But why wait for the government to act? Like Zappos, Yale could gain a first-mover advantage by showing that virtually all of its students would resist the temptation.

Go to top

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### About the author

**Ian Ayres** is a lawyer and an economist. He is the William K. Townsend Professor at Yale Law School and a Professor at Yale's School of Management. Professor Ayres has been a columnist for Forbes magazine and a commentator on public radio's Marketplace. Ayres has published 11 books (including the New York Times best-seller, *Super Crunchers*) and *Carrots and Sticks: Unlock the Power of Incentives to Get Things Done*. Ian is a co-founder of stickK.com, a web site that helps you stick to your goals. In 2006, Ayres was elected to the American Academy of Arts and Sciences.

### Notes

1.Adapted from IAN AYRES, CARROTS AND STICKS (2010); Akhil Reed Amar and Ian Ayres, *Paying Students To Quit Law School*, SLATE.COM, http://www.slate.com/articles/news_and_politics/jurisprudence/2011/11/law_schools_should_pay_stude

2.Keith McFarland, "Why Zappos Offers New Hires $2,000 to Quit,"*BusinessWeek*, Sep. 16, 2008; William C. Taylor, "Why Zappos Pays Employees to Quit—And You Should Too," Practically Radical, May 19, 2008, http://discussionleader.hbsp.com/taylor/2008/05/wy_zappos _pays_new_employees.html. Despite its revolutionary incentive tactics, Zappos has recently undergone a round of layoffs. C.V. Harquail, "If Stephen Colbert Were the CEO of Zappos: Explaining a Layoff to Your Employees," *Authentic Organizations*, Nov. 13, 2008, http://authenticorganizations.com/harquail/2008/11/13/if-stephen-colbert-were-the-ceo-of-zappos-explaining-a-layoff-to-your-employees/.

3.Stephen J. Dubner, "Customer Service Heaven," N.Y. *Times Freakonomics Blog*, May 17, 2007, http://freakonomics.blogs.nytimes.com/2007/05/17/customer-service-heaven/; see also Steven D. Levitt, "Amazing Customer Service," N.Y.*Times Freakonomics Blog*, Sep. 29, 2008, http://freakonomics.blogs.nytimes.com/2008/09/29/amazing -customer-service/.

4.See Uri Gneezy and Aldo Rustichini, "Pay Enough or Don't Pay at All," 115 Q. J. Econ. 791 (2000). Uri Gneezy, Stephan Meier, and Pedro Rey-Biel, "When and Why Incentive (Don't) Work to Modify Behavior," 25 J. *Econ. Perspectives* 191 (2011).

5.Louisa M. Alcott, *Little Men: Life at Plumfield with Jo's Boys* (1871)
6.http://www.marines.cc/content/view/32/33/.

7.Akhil Reed Amar and Ian Ayres, Paying Students To Quit Law School, SLATE.COM, http://www.slate.com/articles/news_and_politics/jurisprudence/2011/11/law_schools_should_pay_stude