

ORGANIZATIONAL BEHAVIOR AND HUMAN RESOURCE MANAGEMENT

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Lesson 07

extrinsic motivation



VROOM'S EXPECTANCY THEORY

EFFORT → PERFORMANCE → REWARD



MOTIVATION

=

EXPECTANCY

X

INSTRUMENTALITY

X

VALENCE

HIGH
LOW

=

BELIEVING THAT THE
PERFORMANCE IS
CORRELATED TO THE
EFFORT

HIGH
LOW

X

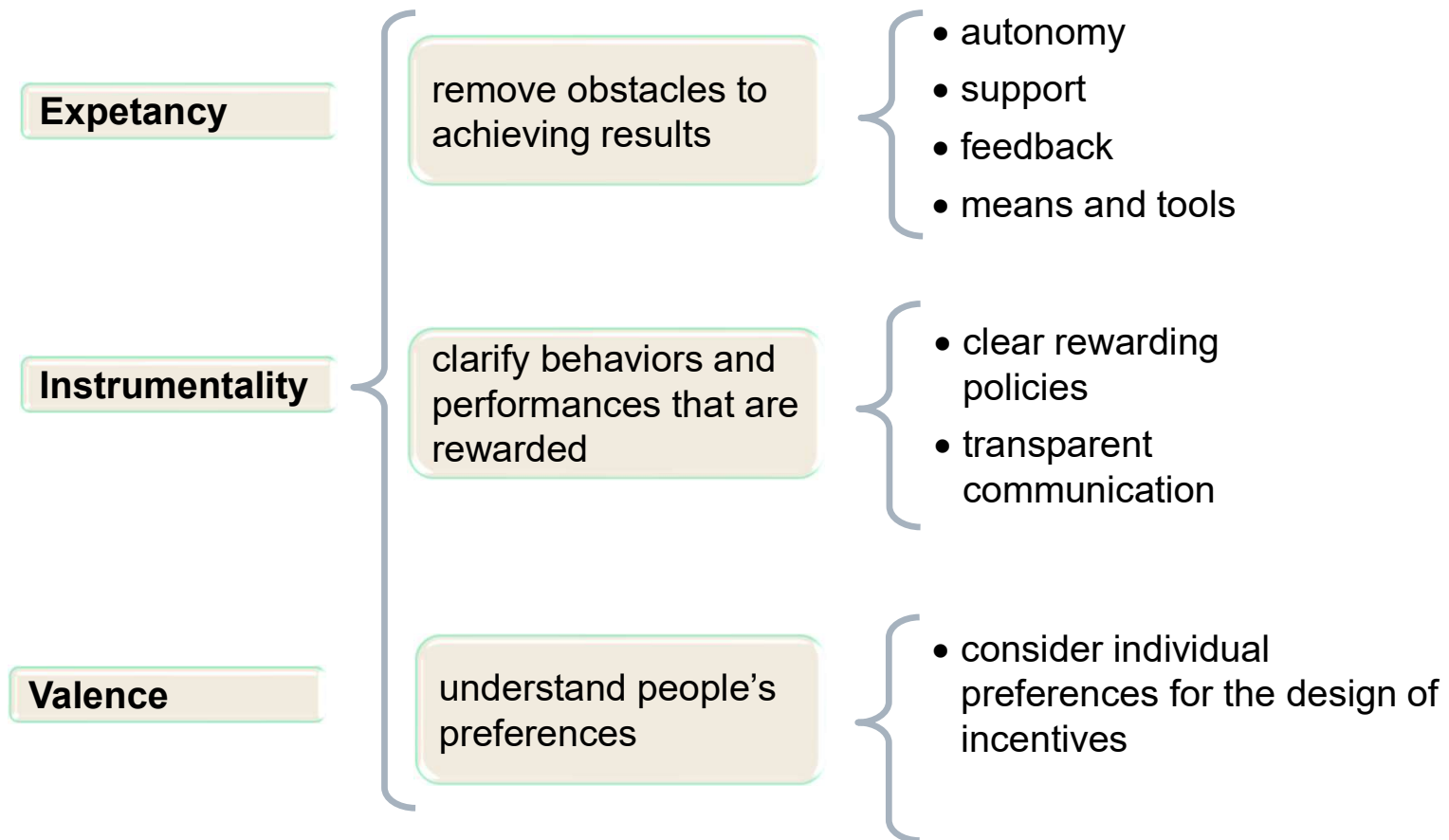
BELIEVING THAT
THE REWARD IS
CORRELATED WITH
THE PERFORMANCE

HIGH
LOW

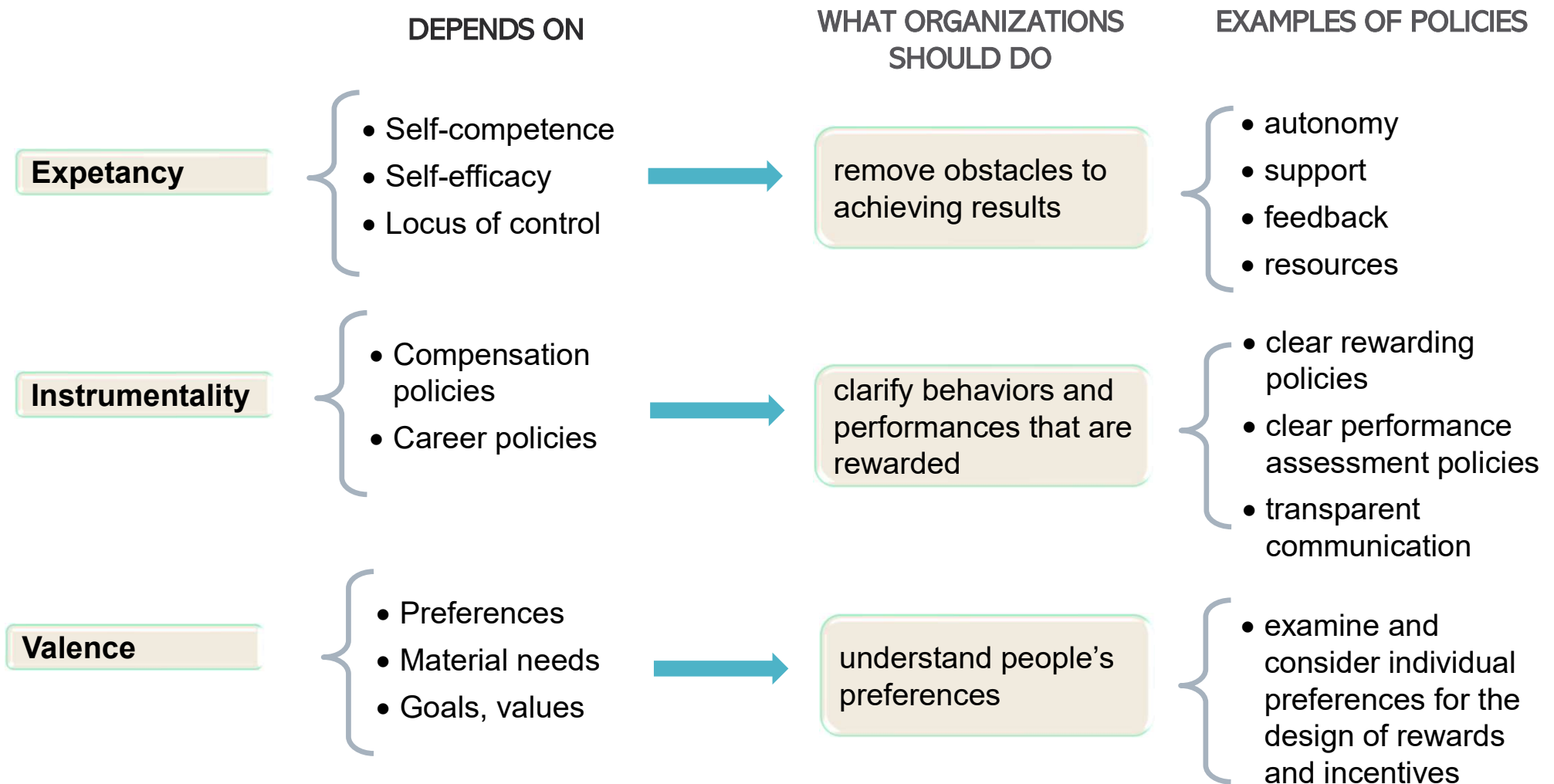
X

THE VALUE
ATTRIBUTED TO
THE REWARD BY
THE INDIVIDUAL

HIGH
LOW



IMPLICATIONS FOR MANAGEMENT



overview on extrinsic motivation

INTRINSIC vs EXTRINSIC MOTIVATION: DEFINITIONS

- **EXTRINSIC MOTIVATION** arises from engaging in an activity that is instrumental to achieve a certain goal or outcome that is external (extrinsic) from the activity
 - in other words, performing the activity IN ORDER TO GET SOMETHING ELSE
 - examples: a reward, an incentive, approval, or avoiding a negative outcome
 - You are extrinsically motivated whenever pursuing an activity is separated from receiving its **benefits**
- **INTRINSIC MOTIVATION** arises from engaging in an activity that is perceived enjoyable and, most importantly, like a goal in itself
 - It's doing something for the sake of doing it
 - performing the activity IS THE GOAL
 - you are intrinsically motivated whenever you cannot separate pursuing an activity from receiving its benefits
 - we are going to talk about intrinsic motivation in the next lessons

INTRINSIC vs EXTRINSIC MOTIVATION



You're reading and studying only because you enjoy the subject. No other goals. Pure intrinsic motivation



You're studying because you need to pass an exam, but you also enjoy the subject. Both intrinsic and extrinsic motivation are present.

You hate the subject, but you have to study in order to pass the exam and get your degree. Pure extrinsic motivation.



ADVANTAGES of EXTRINSIC MOTIVATION

- **HIGHER PERFORMANCE AND PRODUCTIVITY**
 - e.g. piece-rate systems
 - especially (or mostly) in activities that are relatively **simple** (in relation to the subject's ability)
 - things can be VERY different for creative activities, as we will see
 - effective in the **short term**, more problematic in the long term
- **GOAL ALIGNMENT**
 - extrinsic incentives serve as a **signaling mechanism**; by rewarding specific actions or results, companies communicate what is important
- **BEHAVIORAL CONSISTENCY AND COMPLIANCE**
 - extrinsic incentives can be effective for **habit formation**; they can reinforce the development of regular behaviors and discipline
- **TANGIBLE ACKNOWLEDGMENT AND RECOGNITION**
 - however, the WAY rewards are distribute may have significantly different consequences
 - e.g. perception of fairness; ex-ante vs ex-post attribution
- **REASON FOR PERFORMING UNINTERESTING TASKS and/or DISCOVERING NEW INTERESTS**
 - this may sometimes create the condition for developing intrinsic motivation later
 - e.g. you may start going to the gym not because you like it but because it's necessary for your health. Eventually, you may become passionate about physical training

RISKS, UNDESIRABLE OR COUNTERINTUITIVE EFFECTS of EXTRINSIC MOTIVATION

- **SHORT-TERM FOCUS AT THE EXPENSE OF LONG-TERM GOALS**
 - this may or may not be an issue depending on the goals
- **QUANTITY OVER QUALITY TRADE-OFFS**
 - this may be magnified by the temptation of rewarding what is measurable rather than what is important
 - not all that is measurable is important, and not all that is important is measurable
- **ENCOURAGING UNETHICAL OR UNDESIRABLE BEHAVIOR**
 - the Well Fargo's example
 - especially when incentives are very high, and too difficult to achieve
- **NEGATIVE IMPACT ON TEAMWORK, COLLABORATION AND SOCIAL NORMS**
 - the “incentive to help” example and the kindergarden example
 - individual incentives for teams in goal setting research
- **DEPENDENCY AND DIMINISHING RETURNS**
 - people tend to become accustomed to incentives, so they need an always increasing amount to feel as motivated
 - when the incentive is dropped (for any reason), demotivation occurs
- **DECREASED CREATIVE PERFORMANCE**
- **UNDERMINING EFFECT ON INTRINSIC MOTIVATION**

AN EXAMPLE: THE WELLS FARGO SCANDAL



- **THE CROSS-SELLING STRATEGY**
- Wells Fargo is one of the largest banks in the United States and, for years, has promoted an aggressive cross-selling strategy, encouraging employees to sell more financial products to each customer
- The goal was to increase the number of accounts per customer (e.g., checking accounts, savings, credit cards, loans, etc.)
- **THE INCENTIVE SCHEME**
- Sales people and managers were given **very challenging cross-selling targets** (e.g. new accounts to open per day)
- **Remuneration was heavily based on results**, with bonuses linked to the number of products sold
- Managers were also forced to achieve **unrealistic goals** and those who did not meet the quotas risked **job loss or demotion**
- Employees were therefore placed in **strong competition with each other** rather than working collaboratively

AN EXAMPLE: THE WELLS FARGO SCANDAL



- **WHAT THE EMPLOYEES DID**
- Faced with immense pressure, many employees resorted to fraudulent activities just to meet sales targets:
- **Fake accounts:** employees opened checking accounts, savings books, and credit cards without customer consent.
- **Unauthorized fees:** many accounts had hidden fees that customers were unaware of
- **Fake signatures:** employees forged signatures and used made-up email addresses to activate accounts.
- **Fake PIN numbers:** To activate unauthorized accounts, some employees even generated fake PINs and email addresses
- Between 2002 and 2016, more than 3.5 million fake accounts were created
- **CONSEQUENCES, AFTER THESE UNFAIR PRACTICES BECAME PUBLIC KNOWLEDGE:**
- Over 5,300 employees were laid off
- The company was fined over \$3 billion by the U.S. government
- Huge reputational damage and loss of many customers
- Later, the company radically changed its incentive policy

THE WELL FARGO CASE IN THE LIGHT OF VROOM'S THEORY



- **Expectancy:** "If I put in the effort, I will get a good performance"
- Employees felt that commitment alone was not enough – they had to cheat to achieve the goals assigned to them by the company
- **NOTICE THE PROBLEM:** the performance required was unrealistic compared to the subjects' abilities and competencies
- **Instrumentality:** "If I get a good performance, I will be rewarded"
- The compensation system in Wells Fargo rewarded only the number of sales, while totally ignoring other aspects such as ethics, customer service, internal collaboration etc.
- **NOTICE THE PROBLEM:** the too narrow and "extrinsic" focus of the expected reward
- **Valence:** "Does the reward have value for me?"
- The reward was not only monetary: the stakes were very high (e.g. keeping the job or avoiding demotion). Because of this, many employees felt compelled to commit fraud
- **NOTICE THE PROBLEM:** when the valence is too high, the risk is to induce unexpected and undesirable behavior

PERSONALITY TRAITS that influence EXTRINSIC MOTIVATION

- **OPENNESS:** The tendency to be imaginative, curious, and open to novel experiences, ideas, and unconventional values
 - They are motivated primarily by intrinsic factors (curiosity, creativity, intellectual stimulation).
 - They find extrinsic incentives less motivating, especially if these rewards are tied rigidly to standardized performance measures or repetitive tasks.
 - They respond better to **extrinsic rewards that provide opportunities for exploration, autonomy, professional growth, or skill development** (e.g., opportunities to attend conferences, participate in training, or receive funding for creative projects).



PERSONALITY TRAITS that influence EXTRINSIC MOTIVATION

- **CONSCIENTIOUSNESS:** The degree to which a person is organized, responsible, goal-directed, and capable of self-discipline and impulse control.
 - They tend to respond positively to **extrinsic rewards tied clearly to goals and performance** (e.g., performance bonuses, merit-based promotions)
 - They appreciate structured reward systems and view rewards as validation for effort and persistence.



PERSONALITY TRAITS that influence EXTRINSIC MOTIVATION

- **EXTRAVERSION:** The extent to which an individual is sociable, energetic, assertive, and oriented toward positive emotions and external stimulation
- They often respond strongly to **social extrinsic rewards** (public praise, awards, status symbols, or titles).
- Financial rewards also appeal to extraverts, but they particularly enjoy incentives that include social recognition, visibility, or competition.



PERSONALITY TRAITS that influence EXTRINSIC MOTIVATION

- **AGREEABLENESS:** a tendency to be compassionate, cooperative, trusting, and concerned with social harmony and the well-being of others.
 - Extrinsic incentives related to collaboration, teamwork rewards or collective recognition often motivate them better than individually competitive or purely monetary incentives.
 - Highly competitive extrinsic incentives could demotivate agreeable people because competition conflicts with their desire for harmonious social relationships.



PERSONALITY TRAITS that influence EXTRINSIC MOTIVATION

- **NEUROTICISM (emotional stability):** the tendency to experience negative emotions such as anxiety, anger, and depression, and to be emotionally reactive and vulnerable to stress.
 - They tend to be often motivated by **rewards that reduce anxiety or insecurity** (e.g., job security, stable income, or clearly defined performance criteria).
 - They tend to be **highly sensitive to punishments or negative incentives**, making these **effective but potentially stressful** or damaging over time.



OTHER INDIVIDUAL FACTORS that influence EXTRINSIC MOTIVATION

- LOCUS OF CONTROL
- Internal locus of control:
 - Individuals believing they can control outcomes through their actions generally respond well to rewards that are clearly tied to their own performance and effort.
 - They find incentive schemes motivating when the link between their effort, performance, and reward is transparent (strong instrumentality in expectancy theory terms).
- External locus of control:
 - Those who see outcomes as driven mainly by luck, fate, or external circumstances are often less motivated by extrinsic incentives directly linked to performance.
 - They might see rewards as arbitrary or outside their control, which diminishes motivational power
 - They might be more responsive to stable extrinsic incentives (e.g., fixed salaries, predictable bonuses, stable conditions)
- Intrinsic vs. Extrinsic Orientation (Trait-Level Motivational Orientation)
 - Some individuals have a general tendency (personality trait) toward either intrinsic or extrinsic orientations

ORGANIZATIONAL FACTORS that influence EXTRINSIC MOTIVATION

- different norms on incentives in different **INDUSTRIES** and **JOB ROLES**
 - for example, in sales roles or financial trading, high extrinsic rewards (commissions, bonuses tied to performance) are common and create a strong performance-driven culture.
 - In contrast, in creative or research-oriented fields, excessive focus on extrinsic rewards can backfire
- **TASK DIFFICULTY and FEEDBACK AVAILABILITY**
 - in jobs where performance is easily measurable (e.g., number of units produced), extrinsic rewards can be tightly linked to performance and, thus, very effective
 - in jobs with long-term or diffuse outcomes (e.g., nurturing client relationships), immediate extrinsic incentives might be harder to implement and less effective or even counter-productive
- **ORGANIZATIONAL VALUES**
 - a non-profit organization focused on a social mission may find that its employees are more inspired by the mission itself (intrinsic/purpose-driven motivation) and might be uncomfortable with overt monetary incentives
 - a for-profit sales company will more often lean into extrinsic reward systems.
- **LEADERSHIP AND MANAGEMENT STYLE**
 - a results-driven, competitive organizational culture (emphasized by leadership style) will make extrinsic incentives very salient (employees constantly aware of metrics and rewards)
 - an organizational culture that emphasizes learning and collaboration might use extrinsic rewards more sparingly or in a team-based way.

OTHER FACTORS that influence EXTRINSIC MOTIVATION

- Economic and Tangible Conditions:

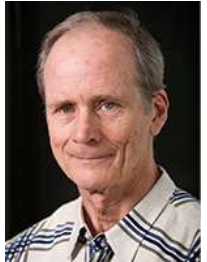
- During tough economic times or in regions with high unemployment, money (extrinsic financial reward) tends to become a very salient motivator
 - remember Maslow's hierarchy
- Conversely, in very prosperous conditions, additional monetary rewards might have diminishing motivational returns
- Economic context also affects organizations: in a booming market with a talent shortage, companies may use hefty extrinsic incentives (sign-on bonuses, stock options, etc.) to attract and retain employees

- Cultural Factors:

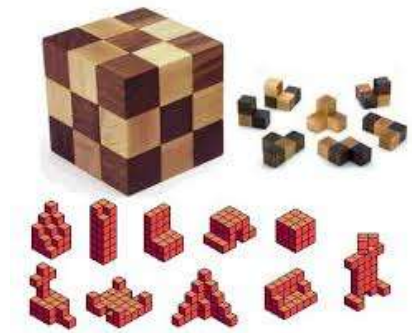
- **individualistic cultures** (like the U.S. or Western Europe) often emphasize personal achievement and tangible rewards
- in **collectivist cultures** (such as many Asian and Latin American cultures), group harmony, community, respect from colleagues, recognition from peers can be more important
- **Power distance (acceptance of unequal power)** can also play a role
 - in high power-distance cultures, people may expect and accept that extrinsic rewards are distributed by authority and might not negotiate or seek them proactively
 - in low power-distance cultures employees might demand fair extrinsic rewards.
 - when managing a multicultural team, understanding these cultural value differences is crucial

common issues (negative, unintended or counterintuitive) with
extrinsic motivation

Early studies on motivation and incentives: Deci (1969)



- 2 groups (A e B)
 - 3 sessions (1,2,3), one hour each in 3 consecutive days
- Day 1: A and B, no incentive
- Day 2: A: money incentive (about 6\$ per problem solved), B. no incentive
- Day 3: the same as day 1
- The interruption and the announcement
 - D1: both groups keep working for about half the time during the interruption, showing a modest interest for the activity
 - D2: group A increases their work time (interest) during the interruption
 - D3: group A decreases drastically their work time (interest) during the interruption
 - Deci: «when money is used as an external reward for some activity, subjects lose intrinsic interest for the activity»
- **EXTRINSIC** vs **INTRINSIC** motivational processes



The «UNDERMINING» effect

- Extrinsic Motivation (rewards, incentives) tend to «cannibalize», «undermine» Intrinsic Motivation
- According to **Cognitive Evaluation Theory** (with strong evidence from a very large number of studies) the events that influence a person in terms of reduction of autonomy or perceived competence decrease intrinsic motivation (and viceversa)
- Incentives are often conducive of 2 different “meanings” or “interpretations”:
 - if perceived as “**CONTROLLING**” – the undermining effect is triggered (reduction of intrinsic motivation)
 - if perceived as “**INFORMATIONAL**” – as feedback supporting the perception of competence, self-efficacy, ability – incentives may maintain or even increase intrinsic motivation
 - however, the “informational” effect is relevant only if people perceive a significant sense of autonomy in relation to the activity and the outcomes

WHY IS THIS SO IMPORTANT?

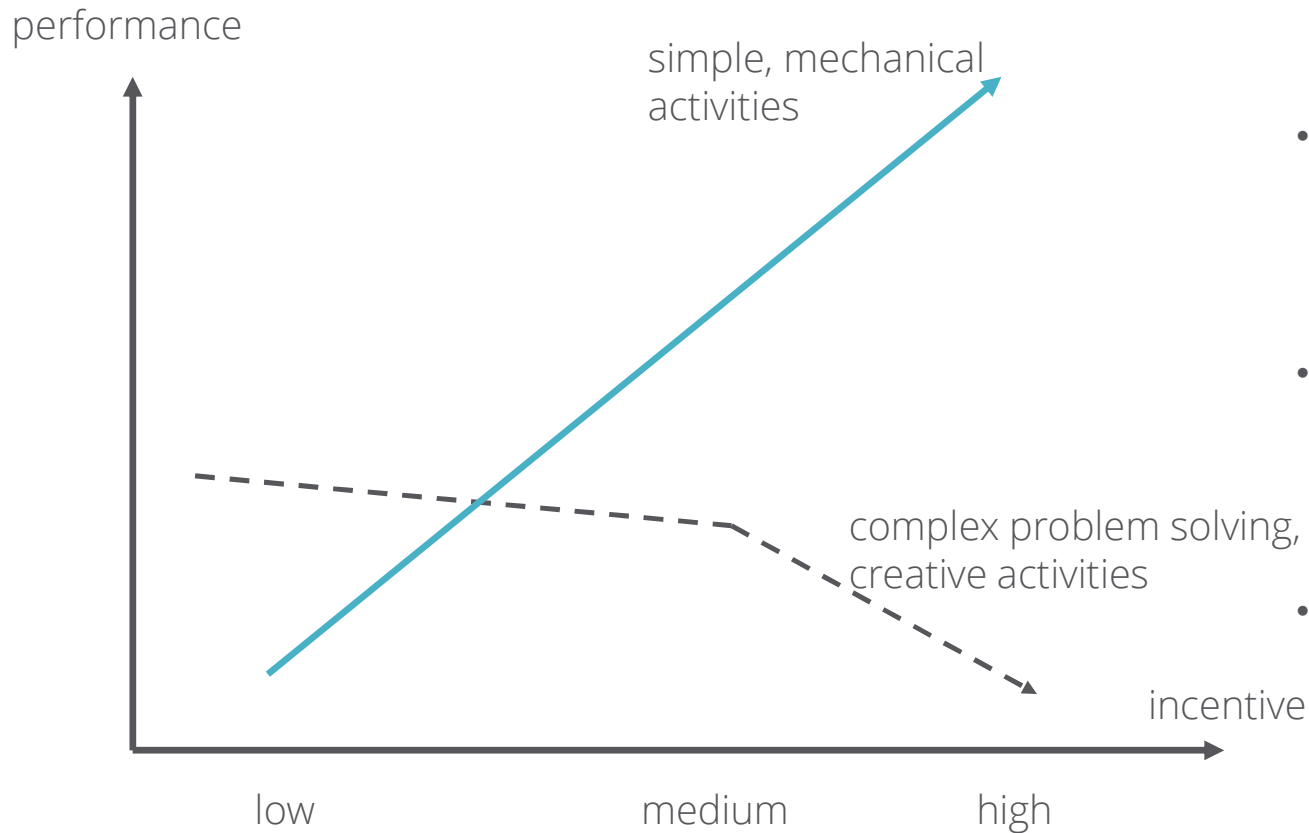
	DEMOTIVATION	EXTERNAL REGULATION	INTROJECTED REGULATION	INTRINSIC MOTVATION
negative health outcomes (burnout, distress)	++	UNDERMINING EFFECT		
positive well-being outcomes	-	0	+	+++
positive attitudes (eg: commitment)	-	0	+	+++
negative attitudes (eg: turnover, detachment)	0	-	+	---
performance	--	+	+	+++
counterproductive behavior	+	+	+	---

much more very negative / positive data about extrinsic / intrinsic motivation on creativity, problem solving, learning ability etc (MORE ON THIS LATER)

INCENTIVES AND PERFORMANCE (from Mazar, Gneezy et al.)

- 3 groups
 - G1. max incentive = 1 day wage
 - G2. max incentive = 2 weeks wage
 - G3. max incentive = 5 months wage
- TASKS:
 - 6 different activities, puzzles, with different levels of creativity, memory, problem solving
 - Some tasks are more mechanical, some more «intellectual»
- what results do you expect?
- which group is most motivated?
- which group achieved the best performance?

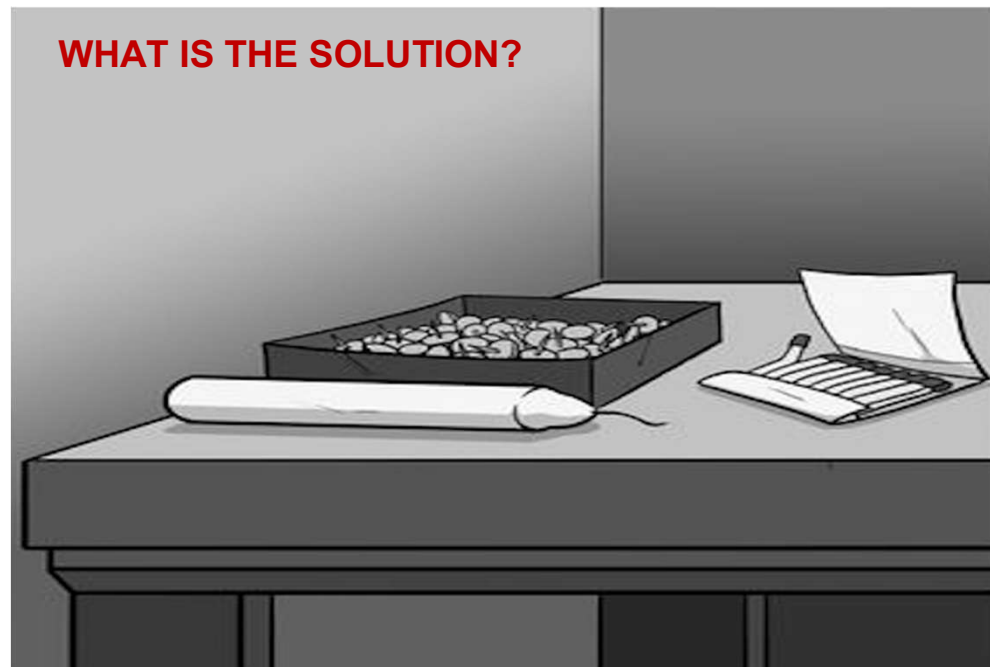
RESULTS



- mechanical activities show a **linear, increasing relationship** between incentive and performance
- heuristic / cognitive activities show **an inverted U shaped relationship** between incentive and performance
- when the incentive increases a lot, **stress** becomes a negative factor, which reduces the performance in cognitive activities
- also, the desire to obtain incentives will lead us to more focused, **dominant (familiar) responses**, rather than creative solutions

incentives and creativity

- Extrinsic rewards can reduce creativity by encouraging people to adopt more familiar, safer, more rigid or conventional approaches and solutions instead of experimenting with new or unusual solutions
- Of course, this is a problem ONLY IF the desired performance requires creativity!
- A classic example: the CANDLE PROBLEM



the candle problem: solution and interpretation



This is just one example, but the tendency of incentives to reduce creativity is a well known general phenomenon

- In a famous study, it was found that **those who were promised an incentive to find the solution were significantly slower and less effective** than those who were promised no incentive at all
- Why?
- Finding the solution requires a **creative use of objects** (i.e. overcoming so-called 'functional fixedness', i.e. the fact that we tend to associate the use of objects with the functions they most frequently perform)
- **The desire for incentives drives us to think in a more conventional, more familiar, less creative way.**
- **In this case, this tendency decreases our performance, because a good performance (in this situation) requires creativity**

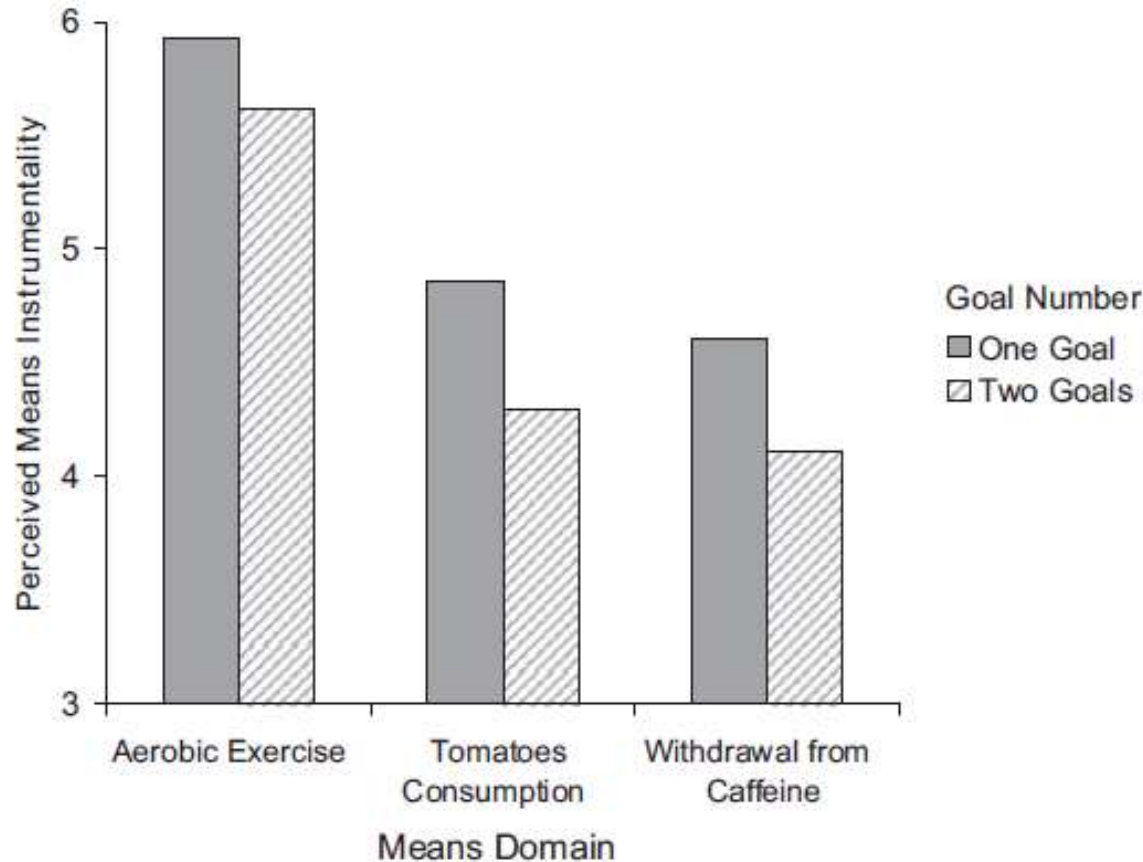
EX-ANTE VS EX-POST (from Lepper, Green e Lisbett)

- 3 groups of children who love to draw
 - G1: **promise** of prize
 - G2: **surprise** prize, at the end of the task
 - G3: no prize
- After some time, in G2 and G3 **no reduction in the interest of the children in drawing**; in G1 a **significant decrease**
 - It's not the incentive **in itself** that reduces the interest for the task, but its «**promise**», it's the idea of an **exchange** (if >>> then): «**If you do this, I pay you that**», generated by the promise of an incentive, that makes our attention (and our desire) more focused on the incentive and less on the activity itself
 - it's an example of the «**DILUTION PRINCIPLE**»: when **more goals (i.e incentives) are added to a single activity serves, the more weakly we associate the activity with our central goal, and the less instrumental the activity seems for this goal.**

Example of the «Dilution Principle»

- In a study, 6 different samples of participants were instructed (by reading a short scientific essay) about benefits of different activities
 - for example, the benefits of exercise
 - in the **ONE GOAL condition**, they were told about 1 benefit for the activity
 - in the **TWO GOALS condition**, they were told about 2 benefits for the activity
 - 6 different groups (3 scenarios x 2 conditions)
 - For example (in the exercising scenario)
 - *Exercising protects you from heart disease*
 - *Exercising protects you from heart disease and maintains healthy bones*
- Then, they were asked to rate, given the scientific information provided, the effectiveness of exercise in relation to the FIRST goal
- The information provided was the SAME in both conditions. The essays only briefly mentioned the presence of the second goal (benefit), in the TWO GOALS condition
- What do you expect?

Examples of the «Dilution Principle»: results



SIMILAR RESULTS IN SEVERAL OTHER STUDIES

adding more goals to a single activity renders this activity subjectively less instrumental with regard to each individual goal

the degree of reduction in subjective instrumentality depends on the perceived distinctiveness between the goals connected to the shared means, with highly distinctive goals amplifying the dilution effect, and less distinctive (or more similar) goals attenuating it

so, when we add a reward to an activity that people enjoy (intrinsically), the distinctiveness is very high and the dilution effects is amplified

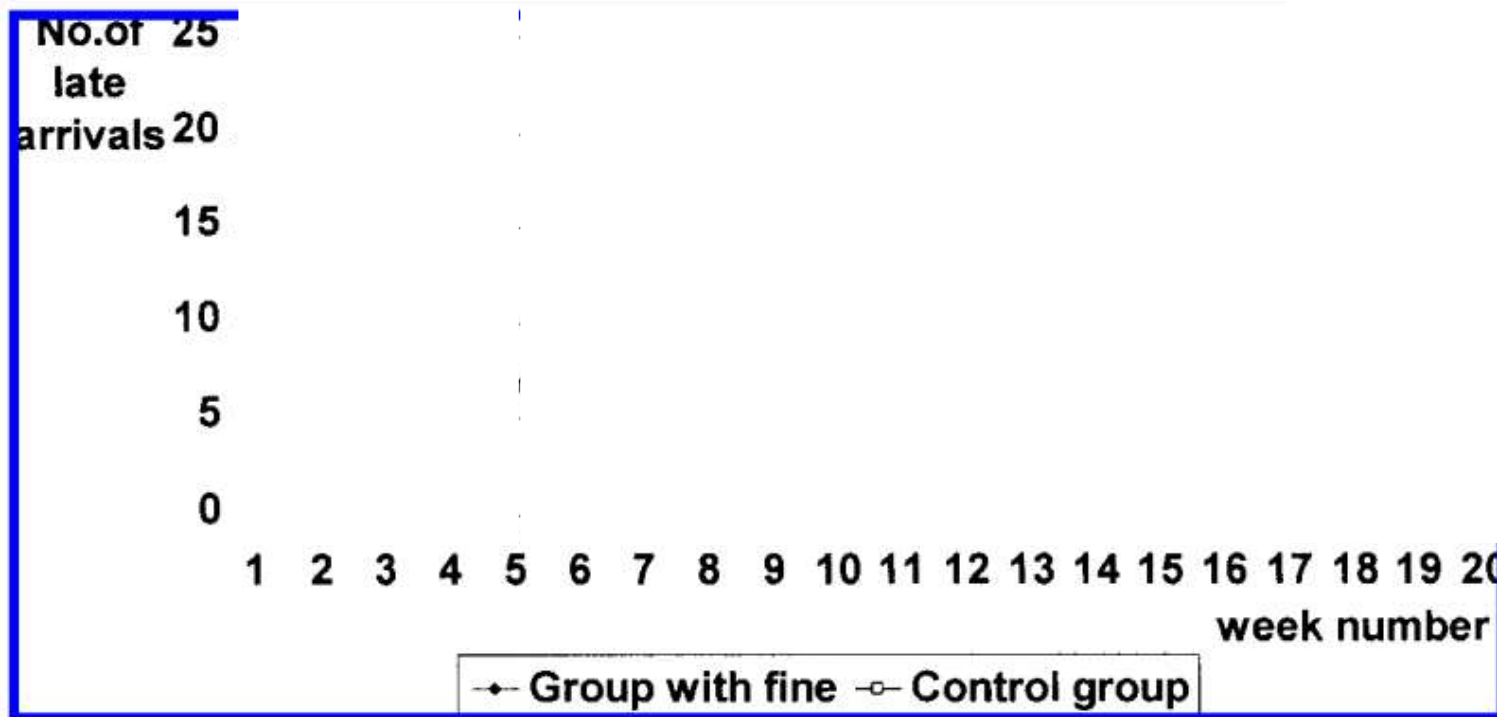
Examples of the «Dilution Principle» (2)

- This dilution is especially potent **when the added incentive is one you don't care much about (and when the added incentive is perceived as very distinct (different) from the original goal)**
 - You are engaged in a recycling program at work, and you are committed because you believe that recycling is a good thing to do for the environment
 - Then you learn that such program will provide tax breaks for your employer; it's a positive incentive, but it doesn't affect you directly
 - It is likely that your dedication to the recycling program will decrease, not because you believe that recycling is less relevant, but because
 - 1) the added incentive dilutes your original motivation
 - 2) the added incentive is something you don't care about
 - 3) the added incentive is very different from the original goal (financial benefit for your employer vs helping the environment)

Incentives, distinctiveness and purpose

- 3 groups of people interested in blood donation (Mellstrom e Johannesson, 2008)
 - G1 no incentive, 52% donors
 - G2 7\$ incentive, 30% donors
 - G3 7\$ with the option of giving it for charity, 53% donors
- Incentives seems to «dilute» or even «pollute» the altruistic purpose
- However, in G3, the charity option changes the meaning of the incentive, as it makes it more consistent (less distinct) with the altruistic purpose. In this case, behavior does not change
- So, it is also important the meaning that we give to incentives (e.g: how they are framed)
- In G3, the dilution effect is very small (or even absent) because the perceived difference between the original goal and the added incentive is small

An interesting case study from Gneezy e Rustichini, 2000



3\$ fine for every 10 minutes of late arrival

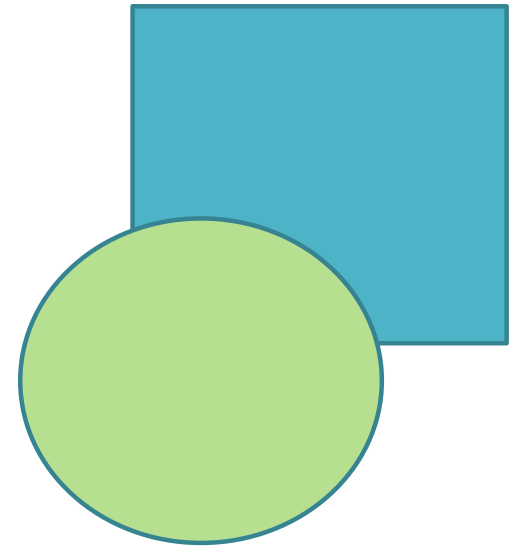
Social norms vs Market norms

- The norms that frame our choices are relevant in defining the kind of influence incentives may have on them
 - For example, a social / reciprocity norm vs a market norm
 - «*I try my best not to arrive too late too often so that I don't cause too many problems to the people that take care of my child*»
 - «*I am paying for a service, so I will buy whatever amount I want, depending on my needs, preference and price*»
- This is another reason why the effect of incentives on choices and behaviors are far from linear and easily predictable
- This may happen even in simple cases, when the strongest motivation seems to be an economic one

Framing incentives and social norms

D. Ariely (2004)

- Extremely simple, mechanical task, with no obvious advantage or interest for the individual, besides the expected prize
- Group 1 (5 dollars)
 - 159 circles
- Group 2 (50 cents)
 - 101 circles
- Group 3 (favor)
 - 168 circles



Same exercise, incentives framed differently

— Incentives are not framed as a «pay», but as a «gift»

— Box of chocolate (5 dollars value):

- 169 circles

— Chocolate bar (50 cents value):

- 162 circles



— **But if we mention the value** of the «gifts» (5 dollars vs 50 cents), they are not perceived as gifts anymore, so we go back to the situation where the more valuable prize motivates more than the less valuable prize

A case study at Google



- *Imagine that you are a team of human resource managers at Google*
- *The CEO of the company wants to establish an annual program in which the most deserving employees of Google are given a very significant financial prize*
- *the goal is manifold:*
 - *to recognize the best contributors to Google success*
 - *to encourage employees to develop, grow and generate successful ideas and contributions*
 - *to increase employees satisfaction, identification with the company, commitment*
 - *to share parts of the profits of the company and provide employees with financial tranquility*
- *Here's the LETTER that the CEO of Google sent to ALL employees in 2004:*

The letter (2004)

- A 2004 letter from S. Brin to the employees:

“We believe strongly in being generous with our greatest contributors. In too many companies, people who do great things are not justly rewarded. Sometimes, this is because profit-sharing is so broad that any one person’s reward gets averaged out with the rewards of everyone else. Other times, it’s because contributions are simply not recognized. But we intend to be different. That is why we developed the Founders’ Award program over the past quarter.

The Founders’ Award is designed to give extraordinary rewards for extraordinary team accomplishments. While there’s no single yardstick for measuring achievement, a general rule of thumb is that the team accomplished something that created tremendous value for Google. The awards pay out in the form of Google Stock Units (GSUs) that vest over time. Team members receive awards based on their level of involvement and contribution, and the largest awards to individuals can reach several million dollars....

Like a small start-up, Google will provide substantial upside to our employees based on their accomplishments. But unlike a start-up, we provide a platform and an opportunity to make those accomplishments much more likely to occur”

A case study at Google



the Google CEO is willing to invest 45 million dollars (annually) in the program, to be distribute as prizes for the most deserving employees

Notice that the most significant work in the company is performed by teams

HOW WOULD YOU DESIGN and IMPLEMENT SUCH A PROGRAM?

What happened

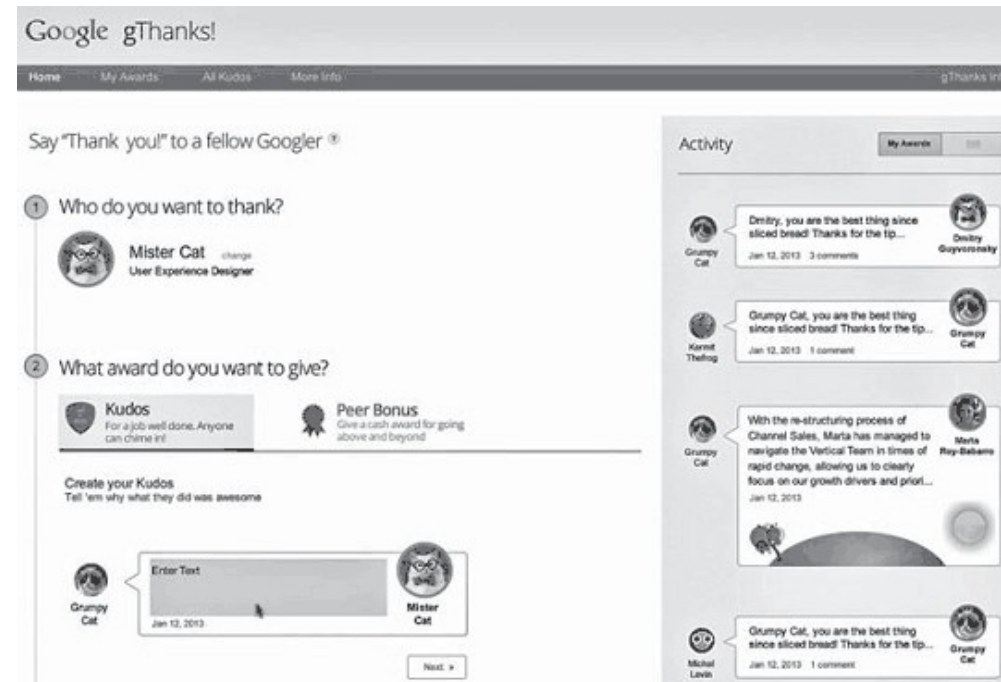
- In 2005, the Founders' Award program awarded 45 million dollars to 11 teams. But ...
- ... the program turned out to be (almost) a **DISASTER**
- half of the company was **demoralized**, mostly the non-technical people, because their jobs gave them no chance to compete for the award, as they couldn't possibly meet the requirements
- heated debate emerged about **how to identify the contributors** who, in successful teams, would deserve to be awarded, and by how much
 - not all team members are permanent
 - not all team members contribute in the same way to a project (how do you measure it?)
 - not all project contributors are team members
 - etc.
- **even winners complained**, when the expectations were not met
 - in a program awarding million of dollars, being awarded "only" a few thousands can be rather disappointing, especially if you are (over)confident about the relevance of your contribution
- **even those winning a million dollars eventually became unsatisfied**
 - they felt they couldn't win twice for the same kind of work, so they asked to be transferred to other areas

The program, revamped

- The problem was:
 - the original Program did not really celebrate / focus on **achievement**, but **compensation**
 - the Program **was not perceived just or fair enough in its «procedure»**
- **Google ran (another) experiment**
 - a group of winners were rewarded with cash, another one with experiences (vacations, training etc)
 - **the result: the latter thought their awards were 28 percent more fun, 28 percent more memorable, and 15 percent more thoughtful**
 - **even though the vast majority of people SAY (beforehand!!) that they prefer a cash award**
- The Program was revamped
 - **all areas of the Company was effectively involved** and had a realistic chance to be awarded
 - **cash awards were largely replaced by «experience» rewards**, made public
 - cash rewards are still used, but in a much **less public way and with moderation**

Another Google example: «spreading the love»

- Not just management may attribute rewards; employees may (and should) do that too
- the gThanks program and tool
 - employees may send public recognition to colleagues (Kudos!)
 - they may also send a 175\$ peer bonus award
 - with NO oversight or any other filtering from management!!
- L. Bock: “In many organizations this would be viewed as madness. Wouldn’t employees cut side deals to exchange awards? Wouldn’t they game the system to earn thousands of dollars in extra income? That hasn’t been our experience. Over more than a decade, **we’ve only rarely seen abuse of the peer bonus system. And when abuse does happen, it’s the Googlers who tend to police it**”



Another Google example: reward «thoughtful failure»

- “ ... it’s also important to reward failure. While incentives and goals matter, the act of considered risk-taking itself needs to be rewarded, especially in the face of failure. Otherwise, people simply won’t take risks” (L. Bock)
- The story of Google Wave (announced in 2009), a VERY significant new platform on which a team invested 2 years of work, and sacrificed several other opportunities (including awards, career opportunities etc). In the end, the product never took off and it was shut down by Google
- The company decide to reward the team anyway (not as much as a success would have granted of course). Some people resigned anyway, but most stayed and moved on to other projects
- FAILURES AND MISTAKES FRAMED AS AN OPPORTUNITY TO LEARN
 - “A year or two after Wave, Jeff Huber was running our Ads engineering team. He had a policy that any notable bug or mistake would be discussed at his team meeting in a “**What did we learn?**” session. He wanted to make sure that **bad news was shared as openly as good news**, so that he and his leaders were never blind to what was really happening and to reinforce the importance of learning from mistakes. In one session, a mortified engineer confessed, “Jeff, I screwed up a line of code and it cost us a million dollars in revenue.” After leading the team through the postmortem and fixes, Jeff concluded, “Did we get more than a million dollars in learning out of this?” “Yes.” “Then get back to work.”

To sum up

- **Google's example is not necessarily a model applicable in many organizations**
 - Google's culture, history, context, is quite peculiar, very difficult to replicate exactly
- However, some fundamental behavioral principles are used, and the same principles can be used (through different mechanisms) almost everywhere
 - 1. pay attention to the **symbolic value** of compensation (CONTROLLING vs INFORMATIONAL-RECOGNITION), as it can create counter-intuitive behavioral consequences
 - 2. pay attention to **self-determination** (e.g., with peer rewards); these can be relatively inexpensive mechanisms, but very powerful from a motivational point of view
 - 3. **pay attention to «failure»**; it may be a powerful and relatively inexpensive idea to reward **«thoughtful failures»**, especially if you want encourage innovation, creativity, risk taking; it is also a way to send an **informational signal** rather than a **controlling signal**
 - 4. pay attention to how rewards are **«framed»**: cash rewards, for example, may have very different behavioral consequences when compared to «experiential» rewards

NOT ALL INCENTIVES ARE THE SAME

- **task-noncontingent rewards**: rewards given for something that has nothing to do with the activity
- **task-contingent rewards**, rewards given to perform the activity
 - **completion-contingent rewards**, depend on completion of the activity
 - **engagement-contingent rewards**, depend on the simple fact of engaging in the activity, regardless of its completion
- **performance-contingent rewards**, rewards given in relation to a certain level of performance (eg, to achieve a minimum level of performance, maintain a certain standard, reward proportional to performance)
 - the latter type is, by far, the most used one

A meta-analysis on 128 studies (1)

- **overall, a significant «undermining» effect of rewards and incentives on Intrinsic Motivation (IM)**

POSITIVE VERBAL FEEDBACK: positive effect on IM

- they are generally **unexpected** (if expected, the positive effect is not observed)
- **they tend to generate an informational effect (increase sense of competence, ability, achievement etc)**
- this happens only if the experience of **autonomy** is maintained
- **in “controlling” organizational environments, the positive effect is not observed**
- **if the subject does not care about the activity and its outcomes, the positive effect is not observed**

A meta-analysis on 128 studies (2)

TANGIBLE REWARDS: overall, **a negative effect on IM**

- even more significant on children

UNEXPECTED REWARDS and TASK-NONCONTINGENT

- **no effect on IM**

ENGAGEMENT-CONTINGENT REWARDS (not related to performance)

- **significant negative effect on IM**
- even more significant on children

COMPLETION-CONTINGENT REWARDS (related to completion, not to performance)

- **significant negative effect on IM**
- even though the completion requisite may indeed have an informational value

A meta-analysis on 128 studies (3)

PERFORMANCE-CONTINGENT REWARDS

- different kinds of conditions:
 - maximum rewards vs proportional reward
 - feedback vs no feedback (informational signal more or less explicit)

OVERALL: **significant negative effect on IM**

NB: effects are persistent (not just transitory)

- 1) NO FEEDBACK, MAX REWARD: **significant negative effect on IM**
- 2) NO FEEDBACK, PROPORTIONAL REWARD: **significant negative effect on IM**
 - **this is the most common situation**
 - **it has the largest negative effects**
- 3) FEEDBACK, MAX REWARD: **significant negative effect on IM**
- 4) FEEDBACK, VARIABLE REWARD: **no effect** (but not enough available studies yet)

IS IT POSSIBLE TO REDUCE THE NEGATIVE EFFECTS ON IM?

- Yes, but **only if the controlling aspect is made less salient**, while **the informational effect is made more salient**
- for example, when rewards are **unexpected** or **non-contingent** to performance
- also, **when the organizational environment / culture is «non controlling» and supports autonomy and personal growth**
- HOWEVER, even in such situations, the level of IM will be lower than positive feedback or no reward situations
- In other words: even if the informational effect embedded in a performance-contingent reward may have a positive effect thanks to favorable organizational conditions, nonetheless the presence of the reward (its controlling component) works against such positive effect

other types of extrinsic motivators / tools

- the undermining effect of economic rewards on Intrinsic Motivation may be interpreted as a particular case (although the most important one) of a more general phenomenon, in which **controlling «devices» generate negative effects on IM because they substitute / decrease the perception of autonomy**
 - «controlling» language (Ryan et al., 1983)
 - grades and expected evaluations (Harackiewicz et al., 1984; Ryan, 1982, Grolnick & Ryan, 1987), surveillance
 - threats of punishments (Deci & Cascio, 1972)
 - imposed deadlines (Amabile, DeJong, & Lepper, 1976)
 - competition (Deci, Betley, Kahle, Abrams, & Porac, 1981),

All these «devices» reduce INTRINSIC MOTIVATION because the controlling aspect becomes more salient than the informational aspect

what behavior to incentivize? the bounty program example

- In early 1900, Hanoi was facing a major problem: flea-infected rats were spreading the bubonic plague
- to fight the epidemic of rats, the government created a bounty program that paid one cent for each rat killed
- At first, the program seemed to be going well. Within a month, tens of thousands of rats were killed every day.
- But to the great surprise of health officials in the city, it seemed that the situation was not improving at all
- Soon, tailless rats were spotted running around the city – strange, given that hunters earned their bounty when they handed in a rat tail.
- **Many hunters, it became clear, were catching rats, cutting off their tails, and setting them loose back into the sewers to breed**
- **Some hunters, who were now making a living off rats, developed farming operations dedicated to breeding them**
- In the end, the incentive program resulted in more, not fewer, rats wandering the streets of Hanoi. The program was quickly terminated



EXAMPLES of OVER-RELIANCE on Extrinsic Motivation in HRM (1)

- **High Turnover Due to Inconsistent Rewards**
- When companies offer bonuses **only during profitable periods** or base them solely on **short-term performance**, employees may become **demotivated during less profitable times**
- This dependence on financial rewards can lead to high turnover or demotivation if employees feel their motivation is based primarily on unpredictable incentives rather than more stable sources of motivation (like intrinsic motivation, as we will see)
- over time, a **decreasing motivational effect** of the same incentive scheme can also be observed

EXAMPLES of OVER-RELIANCE on Extrinsic Motivation in HRM (2)

- **Decreased Team Collaboration Due to Competition for Rewards**
- In organizations where rewards are individually based, employees may focus on **outperforming their peers rather than working collaboratively**
 - remember the Wells Fargo case
- For instance, a “salesperson of the month” bonus may lead salespeople to **compete rather than share leads, tips, or best practices**, which could hurt the overall organizational effectiveness and create a hostile work culture.

EXAMPLES of OVER-RELIANCE on Extrinsic Motivation in HRM (3)

- **Short-Term Productivity Boosts with Long-Term Burnout**
- When employees are incentivized through **bonuses to meet short-term goals** or exceed performance targets, they might push themselves to extreme levels in the short term.
- While this may boost productivity initially, it can lead to **burnout and exhaustion over time**. In these cases, extrinsic motivation is only a temporary solution that fails to address sustainable, long-term motivation and engagement

EXAMPLES of OVER-RELIANCE on Extrinsic Motivation in HRM (4)

- **Reduced Creativity and Innovation**
- Extrinsic rewards often focus on meeting **predetermined, specific targets**, which may **discourage employees from thinking and acting creatively** (thinking “outside the box” or experimenting with new methods that could lead to innovation).
- For instance, if a department is rewarded based on quarterly metrics, employees may avoid taking creative risks that could disrupt short-term productivity, ultimately hindering innovation

EXAMPLES of OVER-RELIANCE on Extrinsic Motivation in HRM (5)

- **Dependency on Extrinsic Rewards for Basic Performance**
- If extrinsic rewards are used **too frequently**, employees may come to **expect rewards for basic job responsibilities**
- In the absence of such rewards, or if they are reduced for contingent reasons, they may not feel motivated to perform at an acceptable level, which can undermine the organizational performance
- This is often seen in organizations where pay-for-performance is used excessively for routine tasks, creating a culture where employees feel entitled to rewards for minimal effort.

positive utilizations of extrinsic motivation in HRM

POSITIVE USE CASES OF INCENTIVES AND EXTRINSIC MOTIVATION

- When incentives are used **carefully** and in the **appropriate context**. For example:
 - To provide adequate levels of **primary needs satisfaction**
 - In relation to **simple, non creative activities**
 - When desired behaviors are easily **measurable** and **short term oriented**
 - When an adequate level of incentive is **sustainable**
 - When an emphasis on **collaboration is not necessary**, while individualistic / competition-oriented behavior is desired
- When a synergistic integration with intrinsic motivation can be achieved.
 - **When incentives signal and/or reward merit, ability and competence, and are accompanied by feedback**
 - **When incentives are associated with / reward autonomy, initiative, responsibility**
 - **when incentives have a symbolic value or are associated with work meaningfulness,**
 - More generally, when the «informational» signal is emphasized and the «controlling» signal is decreased

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (1)

- **Structured Career Progression with Rewards for Skill Development**
- Providing extrinsic incentives for professional development can foster sustainable growth.
- For example, offering bonuses or salary increases **for completing specific certifications or skill-building programs** encourages employees to continually develop their expertise.
- Rewarding employees who **cross-train in another department** or who acquire **additional certifications related to other functions** creates a culture where **learning and adaptability are valued**. This versatility helps the organization become more resilient to changes
- This approach not only rewards effort but also **aligns with intrinsic goals for personal growth**, which can lead to long-term job satisfaction and career advancement within the organization.

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (2)

- **Long-Term Incentives for Retention**
- Long-term incentives, such as stock options, retention bonuses, or milestone rewards for each year of service, can effectively support **talent retention** and **loyalty**
- These rewards offer financial incentives tied to the length of employment, **encouraging employees to stay and grow within the company**
- Remember: **incentives are attractive!!**
- Especially if such incentives are combined with **career advancement opportunities**, employees may feel a greater sense of **loyalty and engagement** with the organization over time.

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (3)

- **Team-Based Bonuses to Promote Collaboration and Shared Success**
- Offering extrinsic rewards based on **team performance** rather than individual performance **fosters collaboration and a shared sense of purpose**
- For instance, providing quarterly bonuses to departments that meet collective goals, such as reducing customer service response times or increasing client satisfaction, encourages teamwork and aligns employees' efforts with broader organizational objectives.
- This approach builds a **culture of collaboration and collective accountability**, which can be sustainable and empowering
- however, **beware the issue of “free riding”** (more on this later)

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (4)

- **Recognition Programs for Exemplary Behavior and Company Values**
- Extrinsic motivation through recognition programs—such as "Employee of the Month" awards, special plaques, or financial incentives for exemplifying company values—can create a **culture that celebrates positive behavior and reinforces desirable qualities**.
- When employees see that integrity, teamwork, or proactivity is rewarded, they may be more likely to emulate these behaviors, contributing to a sustainable, values-driven culture over time
- the 3M example, the G-Thanks example

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (5)

- **Performance-Based Pay with Clear and Achievable Goals**
- Offering performance-based incentives, such as commission structures or achievement-based bonuses, can motivate employees to meet **clearly defined, challenging but not overly difficult goals**
- This approach is sustainable when the goals **align with both the employees' capabilities and the organization's long-term needs**, such as setting realistic sales targets rather than highly aggressive ones
 - Remember the problems at Wells Fargo
 - the effectiveness depends significantly on **HOW goals are set** (much more on this later)

POSITIVE EXAMPLES of USING Extrinsic Motivation in HRM (6)

- **Health and Wellness Incentives to Encourage Well-Being**
- Some companies offer rewards to promote employees' physical and mental well-being, such as gym membership discounts or bonuses for participating in health programs
- These incentives may help employees develop sustainable, healthy habits, which, in turn, can improve productivity, reduce absenteeism, and enhance overall morale
 - it's also an example about how incentives can help people explore and develop new positive interest and sources of intrinsic motivation

to summarize

GENERAL COMMENTS ON INCENTIVES

- INCENTIVES ARE USEFUL AND POWERFUL, BUT THEY NEED TO BE USED CAREFULLY AND IN SPECIFIC CIRCUMSTANCES
- Satisfactory base remuneration is essential for primary needs (Maslow)
 - When primary needs are satisfied, the focus on additional incentives is reduced, so it becomes easier to focus on intrinsic sources of motivation
- They are effective for simple, «algorithmic tasks»
 - when activities and problems do not require complex problem solving or creativity
 - what is «simple» is to some extent relative to the abilities and competence of the individual
- They are highly attractive
 - they can be used to attract talents and/or people who are more sensitive to incentives
 - they can be used as short-term goals to create motivation towards a long term, intrinsic goal
- Best to use, when possible, for non-task contingent and unexpected rewards, and with feedback
- they may also have a synergistic relationship with intrinsic motivation, in specific circumstances
 - when intrinsic motivation is already high
 - when the informational aspects of incentives are made salient (incentives as a way to signal success and competence)