

Decision of Incentives Type in Power Holders' Hands: Joint Evaluation as a Cause of Overemphasize on Monetary Incentives

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Abstract

Many organizations emphasize monetary incentives more than non-monetary incentives. The practice is still common although ample of research show it has a detrimental effect on performance. Power holders in organizations are responsible for this practice because the decision of incentives system is mainly on them. Recent research by Shaffer and Arkes (2009) suggested that people are prone to preference reversals of incentives type, in which they say they prefer to have monetary incentives but indicate more satisfaction with non-monetary incentives. Evaluation of both incentives together in joint evaluation mode elicits a preference for monetary incentives; meanwhile separate evaluation mode elicits a preference for non-monetary incentives. Power holders acknowledge both monetary and non-monetary incentives when they have to decide which incentives type to implement. That means power holders are in joint evaluation mode, which elicits more preference on monetary incentives. Thus, it may explain why organizations – via power holders' decision – overemphasize the monetary incentives. Further implications and possible remedies are discussed.

Keywords: monetary incentives, preference reversals, joint evaluation

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Introduction

Incentive is a form of payment contingent on performance. In theory, monetary incentives motivate employees to perform better. There is a belief that the higher the monetary incentives, the higher the performance. Unfortunately, a growing body of research highlights the detrimental effects of monetary incentives. For example, Ariely, Gneezy, Loewenstein, and Mazar (2005) research showed performance decline as the monetary incentives increase. They divided participants into three incentives groups (low, medium, and high) and asked them to perform some tasks that need cognitive effort such as creativity and concentration. The result was the higher the incentives, the lower the performances. Another research by Vohs, Mead, and Goede (2006) showed negative effect in which people that primed with money (i.e. reminded of monetary incentive) prefer to work alone, put distance and less helpful to others.

The evidences are clear and have been discussed in scientific articles and modern popular books, yet many organizations still emphasize more on monetary incentives. A Recent report from World at Work and Deloitte Consulting (2014) showed that 99% of public companies tend to adopt a short-term cash incentives practice. Other reports from the same source showed a high increase of adoption of short-term cash incentives practice in private companies from 79% in 2007 to 95% in 2011 to 97% in 2013 (World at Work & Vivient Consulting, 2012, 2014a). Even 78% of non-profit and government organizations are adopting this practice (World at Work & Vivient Consulting, 2014b). Why is this practice still happening?

Employers as the Power Holders

To answer the reason of this disadvantaging practice, we have to look at the employers as the power holders. Power holders in organizations are responsible for this practice because the decision of incentives system is mainly on them. As the definition from Keltner, Gruenfeld, and Anderson (2003) and Galinsky, Gruenfeld, and Magee (2003), power holders are they who decide resources of their own and others. Incentives system is one of many resources regulated by those power holders in this case.

In organizations or companies, power holders are the management or board. Those power holders, indeed, due to the higher power, along with higher competencies and higher cognitive load, usually decide the bad incentives systems (Magee, Kilduff, & Heath, 2011). One of those bad incentives systems is overemphasize on financial and material compensation or overemphasize on extrinsic incentives. For the sake of discussion in this paper, I will focus particularly on the problem of overemphasize on monetary incentives, in contrast to non-monetary incentives.

Why higher power leads to bad incentives? It could be because of having more power leads to more self-efficacy and less perspective taking, which are important factors in deciding incentives system (Magee et al., 2011). When managers with high power in the middle of deciding incentives system, they have to put themselves in employees' shoes to predict how the incentives would work. Magee et al. (2011) argued that more self-efficacy makes them think that employees are as competent as they are, and less

perspective taking makes them think that what works for them also works for the employees.

However, we should be critical of this notion. Is it true that high monetary incentives work for those managers? Ariely et al.'s (2005) research showed that it is not true. In their experiments, they found that, in general, the larger the monetary incentives, the worse the performances in tasks that need creativity and concentration. There is a "choking under pressure" effect, in which more monetary incentives might increase motivation but then decrease performance because of two reasons (Ariely et al., 2005). First, increased motivation could shift high skill that is 'automatic' to 'controlled' processes, which is ineffective in order to perform well. Second, increased motivation makes narrow focus attention that inhibits creative thinking in which it needs a wider focus of attention. Usually, the tasks of higher power holders need a higher degree of cognitive effort. In addition, usually the monetary incentives are higher as well. In other words, power holders need to perform tasks with higher cognitive effort and in the same time receive higher monetary incentives. Therefore, power holders are prone to the "choking under pressure" effect.

Thus, the power holders' thinking, "high monetary incentive is good for me, so it is good for the employees" is incorrect – it is not good for both of them. In summary, it is not because of less perspective taking like what Magee et al. (2011) postulated. Then what really cause power holders to overemphasize on monetary incentives?

Evaluability Hypothesis and Preference Reversal of Incentives Type

Recent research in preference reversal of decision making may shed the possibility of why decision makers or power holders choose money over non-monetary incentives. In their experiments, Shaffer & Arkes (2009) found preference reversal effect caused by different evaluation mode.

Preference reversal is an inconsistency of preferences due to different elicitation modes, which is contradictory to traditional economic perspective. One of the explanations of this phenomenon is the evaluability hypothesis by Hsee (1996). Evaluability hypothesis (Hsee, 1996) is, "[w]hen two stimulus options involve a trade-off between a hard-to-evaluate attribute and an easy-to-evaluate attribute, the hard-to-evaluate attribute has a lesser impact in separate evaluation than in joint evaluation, and the easy-to-evaluate attribute has a greater impact." Hsee (1996) gave an example as the following: someone faces two options of music dictionary to choose, (a) has 10,000 music entries and no physical defects; (b) has 20,000 music entries and has physical defects. The music entries are the hard-to-evaluate attribute that is tricky to evaluate without comparison, but the physical defects are easy-to-evaluate attribute that easily recognize without comparison. Therefore, in a separate evaluation, someone tends to choose option (a), meanwhile in joint evaluation, someone tends to choose option (b).

Later Hsee (1999) added that someone bases his or her decision on a choice that is consistent with value-seeking rationale, "the belief that one should choose the option in a choice set that has the highest monetary value." Hsee (1999) gave an example as the following: someone faces two options of milk chocolate from Austria to choose, (a) has 0.5 oz net weight, 50 cents price, and heart shape; (b) has 2.0 oz net weight, 2 dollars price, and disgusting cockroach shape. In this situation, Hsee's (1999) research

revealed that participants tend to predict higher utility from eating the heart shaped chocolate, but tend to choose the cockroach shaped chocolate. Preference reversal occurs in this case.

Shaffer & Arkes (2009) then combined the evaluability hypothesis (Hsee, 1996) with the value-seeking rationale (Hsee, 1999) in their research to investigate a preference reversal of monetary versus non-monetary incentives among employees. They asked two groups of participants in their research to rate the satisfaction level of incentives in 7-point scale. Participants in one group were asked to rate satisfaction of receiving monetary incentives of US\$1,500 and participants in the other group were asked to rate satisfaction of receiving of non-monetary incentives in the same amount (home audio system, HDTV, laptop computer, games ticket, cruise ticket). The result was participants in non-monetary incentives group were significantly more satisfied than participants in the monetary incentives group were. Then they asked another group to choose between monetary and non-monetary incentives. The result was participants in this group tend to choose monetary incentives.

In addition, Shaffer & Arkes (2009) investigated further the difference between hedonic and utilitarian incentives (lawn mower, washer and dryer, a one-year supply of groceries, oven, a one-year supply of gas). The result revealed that both hedonic and utilitarian non-monetary incentives produced significantly more satisfaction than monetary incentives in separate evaluation mode. Meanwhile, participants were indifferent in their choice of utilitarian non-monetary incentives and monetary incentives in joint evaluation mode. This result is the evidence for the value-seeking attribute, in which utilitarian non-monetary incentives also viewed as rationale choice.

These results from Shaffer & Arkes (2009) showed that indeed preference reversal of monetary versus non-monetary incentives occurs among employees: employees tend to choose non-monetary incentives in separate evaluation mode, but tend to choose monetary incentives in joint evaluation mode. The reasons are different evaluation mode or evaluability hypothesis and value-seeking rationale. In this case, the hard-to-evaluate attribute that also acts as value-seeking rationale attribute is fungibility, which is available in monetary incentives but not in non-monetary incentives. Meanwhile, the easy-to-evaluate attribute is affective value or utility.

Back to our case, while in that research participants acted as employees, the preference reversal may occur to employers as well. Employers are also prone to preference reversal because they are in joint evaluation mode where all choices of incentives are in their hands. Employers may also use value-seeking rationale to decide what is “best” for their employees. The probable process is the following: employers have incentives options to give to employees and then reflect their selves, “If I am an employee facing these options, which one would I choose?” And because employers see both monetary and non-monetary incentives (they are in joint evaluation mode), they tend to choose and decide to give employees the monetary incentives. In summary, overemphasize on monetary incentives over non-monetary incentives occurs because of employers are in joint evaluation mode when deciding which incentives type to implement.

Further Implication

Recent trends in motivation literatures are discussing the role of intrinsic motivator. This kind of motivator is superior to extrinsic motivator in directing people's behavior. However, intrinsic motivator can only develop in people's heart. Employers can only influence employees' behavior via extrinsic motivator.

Based on self-determination theory (Gagne & Deci, 2005), there are four level of extrinsic motivators that are vary by degrees of autonomy. Non-monetary incentives that we have discussed so far refer to an external form of the extrinsic motivator. There are other extrinsic motivators besides external motivator; those are introjected motivator, identified motivator, and integrated motivator (see Gagne & Deci, 2005). Those extrinsic motivators are more abstract than the first extrinsic motivators, but the degree of autonomy are higher, respectively.

When employers tap the extrinsic motivator with higher autonomy degree, they may influence the intrinsic motivation of employees. However, this action is difficult if we refer to the preference reversal of incentives type. People would still choose the motivator with lowest autonomy degree. This is because that kind of incentives is tangible compare to other kinds of incentives. When someone faces choices in joint evaluation mode, the tangibility of the incentives may act as the value-seeking rationale as fungibility in monetary versus non-monetary incentives.

Continuing this practice has a clear impact: employees would feel less satisfied. This less satisfaction then has the domino effects such as resulting in lower organizational engagement and lower work performance. This condition is dangerous for organizations and should be solved.

Possible Remedies

The employers are rational according to the traditional economic theory. However, carry the rational thinking in this situation is not helpful. Employers should be more irrational in this case to maximize the benefit of incentives system implementation. It is not a good idea to ask employee, "what do you want?" as suggested by Magee et al. (2011). The most probable answer to that question is, "I want money, more and more money" as showed by Shaffer & Arkes (2009).

The most obvious way to solve this problem is by using separate evaluation mode. Power holders could ask employees to evaluate the incentives options one by one using satisfaction scale in separate mode instead of choose from an array of choices in joint evaluation mode. It is also important to eliminate monetary incentives at all or combine it on top of salary. By doing this, the incentives are not contingent on the performance, then "choking under pressure" effect could be minimized.

Conclusions

There are two conclusions from our discussion in this paper. First, power holder, as a human, are not immune to the preference reversal coming from different elicitation modes. As a result, power holder tends to overemphasize the monetary incentives.

Second, employees do not know what make them better off. They tend to choose an option that is less satisficing and bad for them.

However, there is an upside part from this irrationality. A job seeker, the soon to be employee, is also prone to preference reversal. Therefore, monetary incentives are attractive for new employees. When a job seeker has two job offers from two companies, he or she tends to choose the company with higher monetary incentives according to the value-seeking rationale theory. Thus, different strategy could be applied for different purposes. To attract or recruit new employees, give more proportion to monetary incentives; to make current employees happier, more productive, and more satisfied, emphasize on non-monetary incentives.

Finally, to wrap up our discussion, we shall take a look at Lego experiment by Ariely, Kamenica, and Prelec (2008). In their experiment, they asked participants to build robots (Bionicles) from Lego. Participants would receive monetary incentives based on how many Bionicles they build. The researchers divided participants into two conditions: meaningful and Sisyphus. In the meaningful condition, after participants build one Bionicle, the experimenter would place the Bionicle in front of them. In the Sisyphus condition, after participants build one Bionicle, the experimenter would immediately destroy the Bionicle in front of them, which make the work meaningless. The experiment result was that participants in the meaningful condition build significantly more Bionicles than participants in the Sisyphus condition. So, in the end, what makes an employee, as a human being, truly perform his or her best is not because of any external regulator such as monetary incentives, but because of meaning.

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