



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE



The University of
Nottingham



When Financial Incentives Backfire: Crowding-Out Motivation at Work

A Theory Meets Practice Workshop

**Tuesday 30th June 2009
9am to 6pm**

London School of Economics

Room A318, 3rd floor, Old Building, Houghton Street

Performance-related pay has become the primary device used to motivate people in the workplace. It is based on the idea that if people are promised monetary rewards, they will work harder and act appropriately in order to obtain them. But is this argument always borne out in practice? What is the behavioural concept underlying the assumption that people will increase their efforts if they are provided with these incentives?

Much research indicates that providing monetary incentives can increase outputs. However, some researchers argue that financial incentives may also reduce intrinsic motivation, or the internal drive to complete a task and the pleasure derived from the process. Others point to the possibility that monetary incentives may diminish ethical or other reasons for complying with workplace social norms such as fairness. As a consequence, the provision of incentives might result in a net reduction of motivation across a team or organisation, and actually have a negative impact on overall performance.

This workshop brings together highly experienced practitioners and top researchers in this field to discuss key questions raised by this controversy. In particular, we will consider:

- Is pay for performance actually necessary?
- When is it effective? When is it harmful?

Researchers have been working on the topic for years and have gathered valuable empirical insights. Executives and HR managers carry a large stock of experience relating to the benefits and pitfalls of incentive schemes in organisations. Knowledge transfer between these two groups is of vital importance, but virtually non-existent. By bringing together highly credited experts with different backgrounds, this workshop provides one of the rare opportunities for cross-fertilisation between theory and practice.

The event is organised by Dr Bernd Irlenbusch, Department of Management Studies, London School of Economics, Prof Simon Gächter, University of Nottingham, Dr Esther Kessler and Fiona Roberts, University College London.

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PROGRAMME

9:00 – 9:30	Coffee and arrival
9:30 – 9:45	<i>Welcome</i> , Bernd Irlenbusch, Reader in Management, London School of Economics
9:45 – 10:45	Sam Bowles, Professor of Economics, Santa Fe Institute: <i>“Machiavelli’s Mistake: Why Good Incentives are no Substitute for Good Citizens”</i>
10:45 – 11:00	Tea and Coffee
11:00 – 12:00	Michael Kramarsch, Managing Director, Towers Perrin: <i>TBA</i>
12:00 – 12:15	Vicky Wright, Senior Consultant, Watson Wyatt: <i>“Performance Pay and Risk”</i>
12:15 – 12:30	Peter Devlin, Senior Manager, Deloitte Consulting: <i>“Incentives: Cash versus Social Status”</i>
12:30 – 13:30	Lunch
13:30 – 13:45	Mike Emmott, Public Policy Adviser at the Chartered Institute for Personnel and Development: <i>“How does PRP Support Employee Engagement?”</i>
13:45 – 14:00	Sandra Polania, Research Fellow, University of Siena: <i>“Categorical and Marginal Crowding Effects of Incentives on Social Preferences: Experimental Evidence”</i>
14:00 – 14:15	Sebastian Kube, Professor of Economics, University of Bonn: <i>“The ‘Currency’ of Reciprocity”</i>
14:15 – 14:30	Yannis Georgellis, Senior Lecturer Economics & Finance, Brunel University: <i>“Crowding Out Public Service Motivation”</i>
14:30 – 14:45	Tea and Coffee
14:45 – 15:00	Jeffrey Carpenter, Professor of Economics, Middlebury College: <i>“Performance Pay and the Erosion of Worker Cooperation: Field Experimental Evidence”</i>
15:00 – 15:15	Dirk Sliwka, Professor of Management, University of Cologne: <i>“Differentiation and the Performance Effects of Bonus Schemes”</i>
15:15 – 15:30	Adrian Furnham, Professor of Psychology, University College London: <i>“Equity Theory and Money as a Demotivator at Work”</i>
15:30 – 15:45	Oriana Bandiera, Reader in Economics, London School of Economics: <i>“Team Incentives: Evidence from a Field Experiment”</i>
15:45 – 16:00	Tea and Coffee
16:00 – 17:00	<i>Synthesising discussion</i> . Chair: Simon Gächter, Professor of the Psychology of Economic Decision Making, University of Nottingham
17:30 start	Workshop drinks and dinner, the Terrace Bar and Admiralty Restaurant, Somerset House, the Strand.