How incentives can hurt group productivity and shared resources

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A study by Professor Stephan Meier, Assistant Professor, Management at Columbia Business School, and co-author Andreas Fuster, Ph.D. candidate, Harvard University Department of Economics, which was published in *Management Science*, an INFORMSR publication, found that while monetary incentives in the workplace, such as subsidies or bonuses, are regarded to be effective ways to encourage staff contributions, incentives can interfere in public and workplace environments dependent on informal norm enforcement.

In the context of this study, informal norm enforcement refers to forces that compel people to not exploit common resources and to contribute to common goals, either in the workplace or in civic duties, such as recycling or paying taxes. Meier and Fuster discovered that when participants received private incentives, norm enforcement became less effective at getting free riders to contribute to the group effort.

In the first experiment, participants were asked to contribute to a public good (in this case, a common pool of cash) to be divided equally among all participants at the end of each of six rounds, whether or not all participants contributed. The best possible financial outcome for all participants was for everyone to contribute to the pool, which would have increased the total sum of money to be divided. For each individual, the optimal outcome was to have everyone else contribute, without contributing herself. Here, contributors were barred from exercising any form of norm enforcement.

In this setting, people gave small amounts to begin with, but giving decreased over time. Next, the researchers added incentives: every contributor got a lottery ticket. Recipients stood a good chance of winning some additional cash if their ticket was drawn. The researchers found that with added incentives in a setting with no opportunity to enforce norms, people are more likely to contribute, including free riders.

In the second experiment, participants who contributed to the common pool could punish other players, by imposing fees on free riders at the end of each round, simulating norm enforcement. Free riders who were punished, as most were, increased their contributions in subsequent rounds. When the researchers added incentives (also lottery tickets), they discovered that contributors scaled back their punishment of free riders by almost half. Free riders, in turn, were much less likely to increase contributions in subsequent rounds whether or not they were punished, ultimately resulting in no higher overall contributions than the scenario without incentives. The incentives failed to have the desired effect because they changed the norm of contribution — making it okay to free-ride.

Meier says, "when there are norm-enforcement mechanisms in place, free riders who are punished tend to come around and start to contribute. In contrast, when individual contributors receive incentives and continue to punish free riders, free riders tend to view the punishment as unfair, and they withhold contributions."

"Individual incentives can really change the structure of how we deal with one another, what the norms are, and how we enforce norms," Fuster added. "If social forces in an organization are important, managers need to be attuned to norm enforcement and peer effects. They should understand that adding monetary incentives can dramatically change this dynamic and lead to a net-negative effect."

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