

Bonus boost: Financial incentive also works in creative teams, says economist

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David Schindler. Credit: Tilburg University

Many companies pay out bonuses at the end of January. Economist

David Schindler investigated whether bonuses work in modern work environments, where teams have to solve complex problems together. His main conclusion is bonuses are very effective and improve performance in this setting by facilitating the emergence of leadership.

Teamwork involving [analytical thinking](#) has strongly taken off over the last few decades. Until the 1970s, much of the workforce performed mostly manual and repetitive routine tasks, without much need for coordination in teams. Today, work is often organized into teams, in which [team members](#) must solve problems together and think out of the box within limited time. Consider, for example, a team of ICT specialists or consultants.

Schindler says, "Previous research has suggested that [financial incentives](#) are not effective in tasks that require creative thinking, but these claims were based on thin evidence from very artificial laboratory settings. We now wanted to systematically find out what the causal effects of incentives are and if, in fact, they do work."

Bonus highly effective

The researchers now see that [bonuses](#) are highly effective and that teams that can earn a bonus perform the task significantly faster. They show that this is only because of the opportunity to earn money and not because only ambitious goals were communicated to the participants.

Another striking result is the development of leadership in this setting. The researchers see that teams show more demand for leadership when they have the opportunity to earn a bonus. In another follow-up study, they then show that enticing teams to choose a leader has a similar effect. This effectively shows that bonus incentives are likely to improve team organization and lead to the emergence of a team leader.

Schindler says, "Our research shows, contrary to previous research, that incentives do work in tasks that require [creative thinking](#). And they underscore the importance of leadership, which we did not expect to play such a crucial role."

Escape games

The researchers used escape games in their research. "We were looking for a setting in which people work together in teams, on problems that are non-routine and analytic in nature," says David Schindler.

"But we also needed to be able to systematically vary bonus incentives and observe the output in a quantifiable way for a large number of teams. That's how we came up with escape games. These provide the ideal setting precisely because participants work in teams, they need to coordinate and jointly solve cognitive problems that all potentially require very different approaches."

Firms can use these conclusions to design their incentive packages: team bonuses do work and should be used accordingly to improve team performance. "Since we don't observe detrimental effects (such as reduced excitement for the [task](#)), bonuses can be a powerful tool to enhance output," concludes Schindler.

The paper, "The Effect of Incentives in Non-Routine Analytical Team Tasks," is [published](#) in the *Journal of Political Economy*.

More information: Florian Englmaier et al, The Effect of Incentives in Non-Routine Analytical Team Tasks, *Journal of Political Economy* (2024). [DOI: 10.1086/729443](https://doi.org/10.1086/729443)

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