

ASK: NUS ECONOMISTS

When monetary rewards fail to motivate workers

By **SLESH A. SHRESTHA**

■ *Q: Do extrinsic rewards improve productivity of intrinsically motivated workers?*

EMPLOYERS often rely on extrinsic rewards to enhance worker effort and productivity.

Performance incentives – often in the form of monetary bonuses – are common in the private sector. Such rewards are also increasingly used in the public sector to improve quality of services, and to make governments more efficient. In some other jobs such as teaching, nursing and caregiving, or for those who work in the government and the non-profit sector, intrinsic motivation may be more important.

Intrinsic motivation can also overcome the multi-task problem. In multi-mission organisations, extrinsically motivated employees are likely to focus on incentivised aspects of the job, while ignoring the unrewarded ones. Intrinsically motivated employees, on the other hand, are likely to stay focused on the core objectives at hand.

A study my colleagues and I did on a programme in Pakistan illustrates the effect of the two types of motivation.

The National Rural Support Programme (NRSP) is a not-for-profit agency in Pakistan primarily financed by the World Bank. Its main mission is social empowerment and poverty reduction. It achieves these twin goals through the creation and strengthening of community organisations (more commonly known as self-help groups) and by providing micro-credit loans.

As with any financial institution, the health of its credit programme is crucial for its survival. But maintaining a good loan portfolio could undermine its alternative goal of empowerment and devalue its role as a broad-based development agency.

An overemphasis on its credit

operation could also demoralise its field staff responsible for delivering all the services (both credit- and empowerment-related) offered by the NRSP. They work independently or in teams of two. The management has little ability to supervise or monitor their day-to-day activities.

To test the potential trade-offs between intrinsic and extrinsic motivation among its workers, and between its two potentially conflicting goals, we worked in partnership with the NRSP to introduce two types of performance incentives for its staff. Each worker would receive a bonus – in addition to his fixed monthly salary – which was conditional on his meeting pre-determined monthly performance targets.

The first type of bonus was based on performance on credit-related activities, such as loan disbursements and repayments. The second was based on performance related to community empowerment, as measured by the quality of participation in community organisations.

We randomly chose one-third of the field staff to receive a credit-based bonus and another one-third to receive an empowerment-based bonus, while the remaining one-third continued to get a fixed monthly salary.

We tracked the progress of all the staff – their performance, their effort level, and their preferences and attitudes towards NRSP and its work – over 15 months when the bonus was implemented, and another five months after the bonus ended.

We found that providing extrinsic rewards in the form of a monetary bonus reduced intrinsic motivation among NRSP staff. It also decreased altruistic behaviour.

When they were asked to donate money to a well-known charity, those who were offered either a credit- or empowerment-based bonus were less likely to donate, compared with those who did not

receive any performance incentive.

Performance incentives also did not induce greater work effort. Instead, workers with credit-based bonus simply reallocated their work time towards credit activities and away from empowerment activities, and vice versa for those with empowerment-based incentives. They also targeted new clients based on client qualities that were most suitable for achieving their incentivised tasks, potentially at the cost of other important but non-incentivised qualities.

We also looked at whether performance-based incentives improved outcomes. We found that workers who received a credit-based performance incentive improved their loan disbursement and repayment outcomes. But their performance on other credit-related tasks which were not directly incentivised by the bonus did not change. In addition, they performed considerably worse on all empowerment-related tasks, suggesting a sizeable trade-off between the two types of activities.

This is just one study, but it illustrates the challenge of using conventional performance bonuses to motivate intrinsically motivated workers, especially those engaged in empowerment-related work that is hard to quantify.

Employers should look beyond monetary rewards for new hires, and consider non-monetary rewards like social recognition or peer approval. Because when it comes to intrinsically motivated workers, money really cannot buy everything.

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