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Alignment Matters: Navigating Complexities in Incentives and Employee Motivation

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A Well-Functioning Organization is One where Employees are Motivated by the Same Vision as Top Leaders

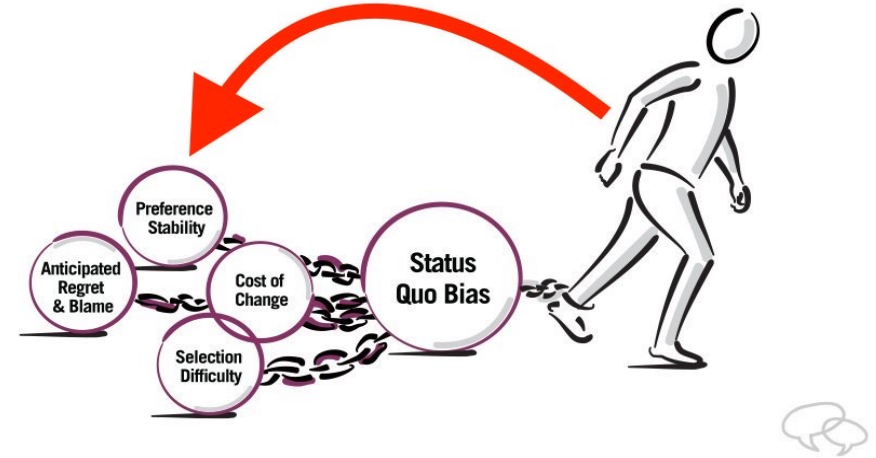
However, Many Organizations Often Find Themselves in This Situation

Issue #1: Lacking Real Incentives to Shift Priority



Why Organizational Incentives?

- Aren't intrinsic rewards enough?
- Status quo bias



Source: [Bay Ridge Consulting Group](#)

Can Extrinsic and Intrinsic Motivation Complement Each Other?

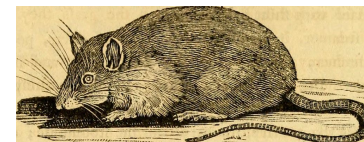
- Extrinsic needs satisfaction is the prerequisite of intrinsic needs pursuit?
 - Maslow's hierarchy of needs theory
 - Herzberg's two-factor theory
- Providing extrinsic incentives erodes intrinsic motivation?
- For those who are already highly intrinsically motivated, research shows extrinsic reward still motivates (Cerasoli et al., 2014)
 - Incentives and intrinsic motivation are best considered simultaneously

Great Hanoi Rat Massacre in 1902

To reduce the population of rats, French government authorities attempted to control the rat population of the city by hunting them down. But they weren't making enough progress.

What should the French government do to control the rat population?

Similar examples: the Cobra Effect in Delhi



Source: Atlas Obscura

Issue #2: Incentives Don't Always Motivate the Desired Behaviors

Kerr, S. (1975). On the folly of rewarding A, while hoping for B. *Academy of Management Journal*, 18(4), 769-783.



Why do these systems fail to reward the desired behaviors?

Sports:

- Although teamwork is desired, individual achievement is incentivized

Business:

- Business long-term growth, sustainability, innovation, and raising concerns are desired, but short-term performance, reporting good news, and agreeing with the boss regardless of whether the boss is right or not are often what gets rewarded

Why do these systems fail to reward the desired behaviors?

Academia:

- The publication reward system incentivizes faculty's research activities but not teaching and institutional building

Politics:

- Civilians want politicians who can execute and get things done but often punish those who discuss issues operationally in detail

A Business Case

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What happened was...

- Engineers split their ideas and submit them to as many ideas as possible
- Engineers strive to submit lots of “incremental” patent applications
- Engineers suddenly get creative in the end of each year

Why are Incentives Misaligned?

- Overreliance on objective metrics or data that is easy to obtain or more visible
 - Not everything that matters can be measured
 - Publications, scoring baskets > teaching, feeding teammates
- Our desire for instant gratifications, pressure from investors
 - Short-term incentives conflict with long-term outcomes
- Hypocrisy

Misaligned Incentives and the Unintended Consequences

- Failing to reward the right behavior
- Unintentionally rewarding the unwanted behavior
 - Gaming the systems, unhealthy competition between teammates, short-sighted thinking

How did Amazon Make Innovation Rewarding?

- Innovation should focus on long-term thinking, not short-term profits
 - New initiatives are thought of as “programs” not “projects”
- Amazon expects to learn from mistakes, a culture that is tolerant of failure
 - Document the learnings for others in the firm
- Amazon asks its engineers to submit **a radical innovation idea as part of their three-year plan**



How to Avoid Misaligned Incentives? How to Align Incentives with Desired Behaviors?

- Selection and training
- Understand what behaviors the system is actually rewarding
 - Should be driven by organizational goals
 - Reward systems should reinforce desired behaviors
- If needed, alter the reward system
 - Both extrinsic and intrinsic motivations
 - Extrinsic: base pay, incentives pay, perks/benefits
- A/B testing



Tools to Align Incentives with Desired Behaviors



Designing a Total Reward Package (Gallup, 2018)

- 1. Offer **high base pay** (in the form of salary or hourly pay) to emphasize meaningful work and collaboration
 - Team rewards or incentives for companywide growth
 - Base pay signals to employees that they are valued
 - Base pay alone won't inspire employees to continually improve.
- 2. Introduce **moderately lucrative incentives** for individual performance
 - Incentive pay provides short-term rewards for achieving specific outcomes
 - The greater the incentive, the more likely it will distract employees from others - the more likely the unintended consequences
 - So, need to ensure incentives are supplementary — not in conflict with intrinsic motivators (e.g., engaging work, employee development and recognition)

Designing a Total Reward Package (Gallup, 2018)

3. Provide enticing **perks and benefits** to attract talent

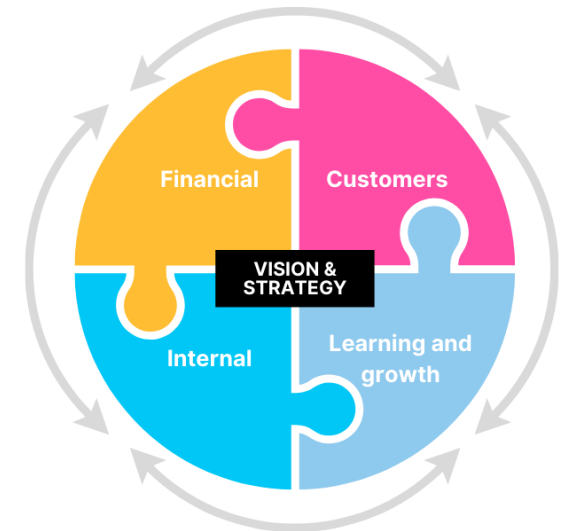
- Critical to long-term well-being, but not enough to drive motivation by itself

4. Create a **culture** of purpose and development

- People are driven by a mix of extrinsic and intrinsic motives
- Extrinsic motivation works best when performance can be accurately tied to specific measures
- Intrinsic motivation is best when performance outcomes are more out of an individual's control
- Extrinsic motivation has a greater impact on quantity; Intrinsic motivation has a greater impact on quality (Lytle, 2023)

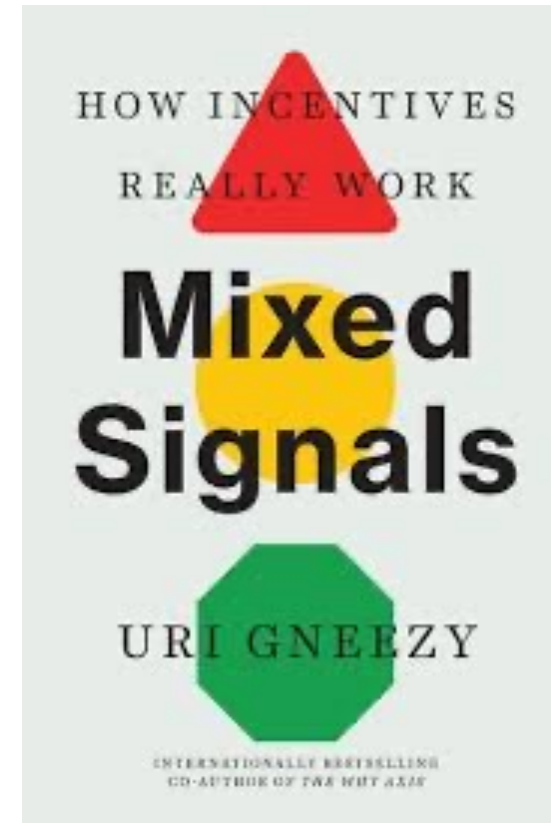
A Balanced Scorecard Method (Kaplan & Norton, 2001)

- The Balanced Scorecard system encourages managers to pay attention to the most important metrics driving their organization's success
- Exercise:
 - List your KPIs
 - Rank order the level of importance each one of your KPIs is to the customers you serve
 - Rank order the extent to which you get rewarded by fulfilling each one of the KPIs
 - To identify where misaligned incentives might be
- Important to reward three critical types of performance for all roles: *individual achievement, team collaboration, and customer value.*



References

Kerr, S. (1975). On the folly of rewarding A, while hoping for B. *Academy of Management Journal*, 18(4), 769-783.



Checklist for Business Leaders

Evaluate an incentive system by checking:

1. Do incentives match the most important responsibilities of the job for your employees?
2. How much are these incentives within the employee's control?
3. What is being de-emphasized by the incentives?
4. How might your incentives influence team collaboration and customer service?
5. Do they align with your stated purpose, brand, and culture?

Effective Incentives Move an Organization from This...

To This!

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An Invitation to Participate in My Research Study on Hiring Decisions



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