

INCENTIVES AND ETHICS

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Daycare Center: Fine and Late Arrivals

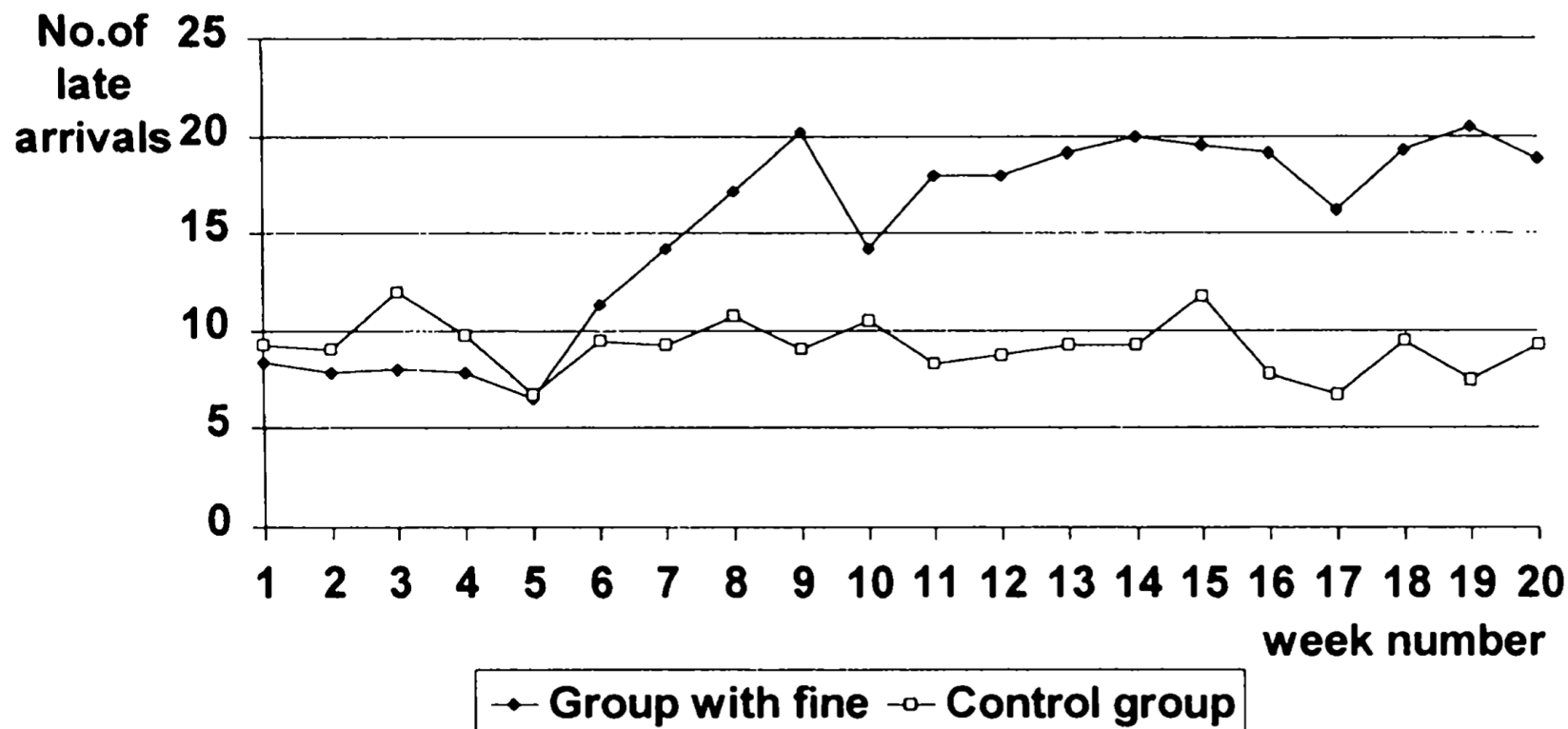


FIGURE I
Average Number of Late-Arriving Parents Each Week, by Group Type

Gneezy, U., & Rustichini, A. 2000. Pay enough or don't pay at all. *Quarterly Journal of Economics*, 115(3): 791-810.

Gneezy, U., & Rustichini, A. 2000. A fine is a price. *Journal of Legal Studies*, 29: 1-17.

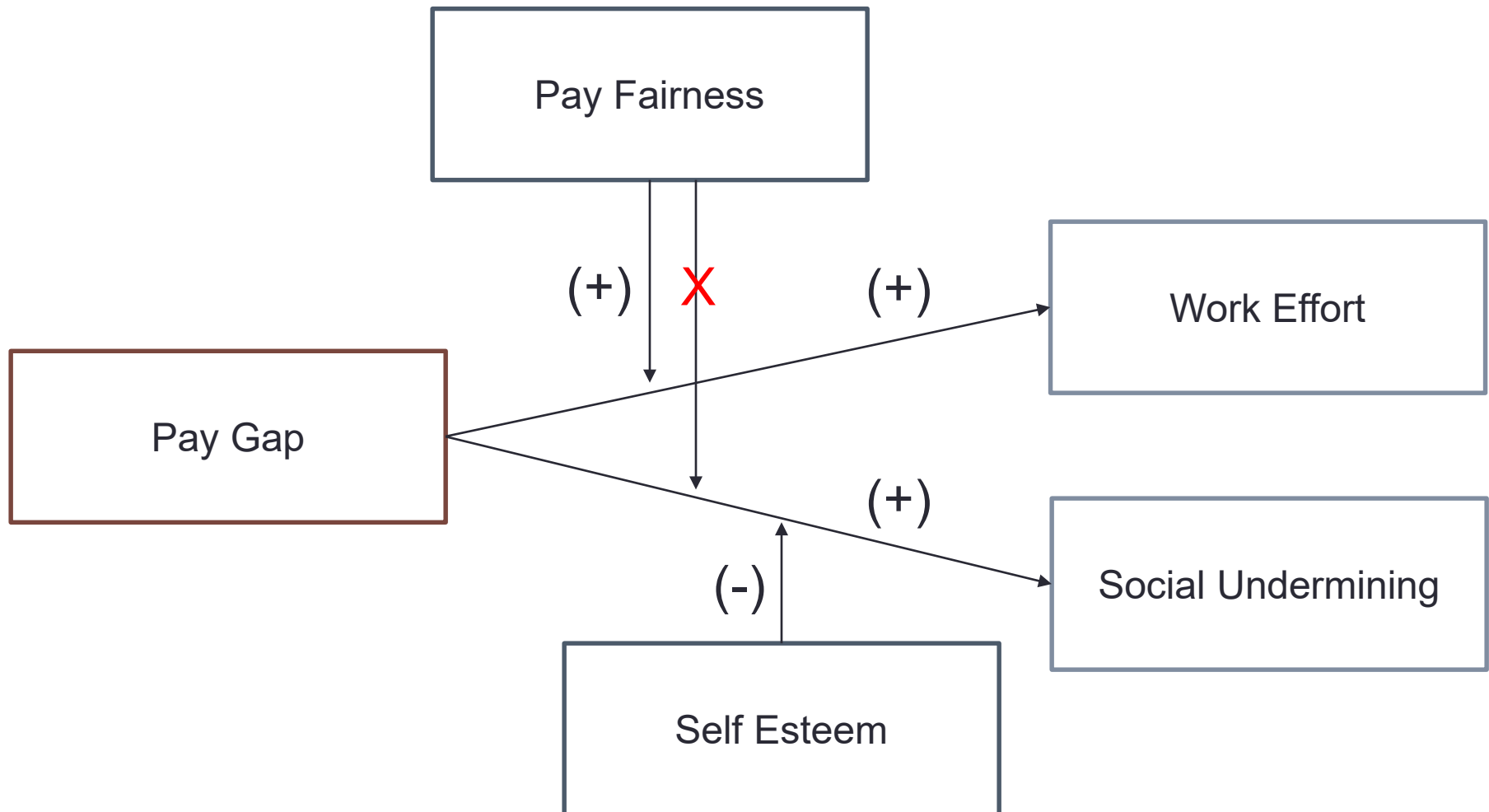
Research in Healthcare Contexts

- Introductions of financial incentives led to:
 - Increases in the frequency of screening (e.g., diabetes, cancer, etc.), which decreased when the financial incentives are removed (Lester et al., 2010 BMJ)
 - Increases the likelihood of C-section increases 5.6 percentage points (Gruber & Owing, 1996 Rand J of Econ; Gruber et al., 1999 JHE).
 - The likelihood is especially greater among patients over 34, which may “reflect physicians’ greater information advantage on the risks of different category of mothers” (Allin et al., 2015 NBER)
 - Mothers who are physicians are 7 to 12 percent less likely to have a C-section than otherwise comparable mothers without medical knowledge (Johnson & Rehavi, 2014 NBER)

Research in Business Organization Context

- **Increases in CEO Equity Compensation led to:**
 - **Increased likelihood of financial statement misstatement** (Cheng & Warfield 2005 The Accounting Review; Efendi et al, 2008 J of Accounting Research; Burns & Kedia 2006 JFE)
 - **But others did not find such evidence** (Armstrong et al 2009 JAR; Beneish, 1999, TAR)
- **Increases in pay gap among employees led to:**
 - **Increased likelihood of social undermining behaviors** (Kim, Sung, & Park, working)
 - **Social undermining behaviors: behaviors that are intended to hinder others' abilities to establish and maintain positive interpersonal relationships and a favorable reputation over time** (Duffy et al. 2002)
 - Spread rumors, deliberately delay work, belittle ideas, hurt feelings, gossips, etc.

Incentive Dilemma



Target-based vs. Linear piece-rate Incentives

Table 4: Treatment Effects on Number of People Who Overclaimed

Measures	Treatments (Proportions in Parentheses)			
	1. Piece Rate (\$0.40) N=52	2. Target Based N=56	3. Tournament N=50	4. Piece Rate (0.10) N=50
Total Overclaims	17 (0.33)	30 (0.54)	16 (0.32)	11 (0.22)
Active Overclaims	13 (0.25)	26 (0.46)	13 (0.26)	9 (0.18)

Target-based (vs. Linear) Incentives

- When incentives are linked with goals/metrics that are (a) specific and (b) challenging, people tend to:
 - Creates an all-or-nothing situation
 - Increases the likelihood of anxiety, insecurity, and decreases in the self-regulatory resources (Welsh & Ordóñez, 2014 OBHDP)
 - Experience outcome biases, the tendency to take results into account, in a manner that is not logically justified, when evaluating the quality of the decision process that a decision maker used
- Examples of Target-based Incentives
 - Gain-oriented goals: sales quota, market share, winning a rival teams/organizations
 - Loss-oriented goals: (potential) reductions in financial security (base pay fluctuations), job security (tenure)

Thank you