



ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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Finding the tipping point between financial and social incentives

By **Frank Hartmann**

How does one strike the perfect balance between incentives and threats when trying to motivate people to improve their performance? This is a perennial question for anyone in a position of management responsibility, whether it be a company chief executive, the head of a political party, a sports coach, a teacher or a parent.

The fundamental issues are that most people need to work and most want to work well. It is the central job of managers to enable individuals to deliver good performance on a consistent basis. There is always a trade-off involved when deciding which incentives to deploy in managing well.

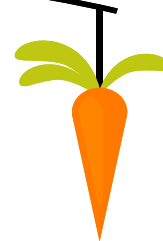
Hard line but ultimately unproven wisdom is that either (a) only offering money works or (b) a pat on the back and an arm round the shoulder will work. What has long been missing is firm evidence, something which no amount of management jargon can disguise. We need facts and fundamentals, rather than what amounts to incomprehensible verbiage and blind faith.

A recent study that I was involved in presents a new way to identify answers. The possibilities in terms of the breadth of potential answers are almost literally endless. What works for one manager or leader in one situation could fail dramatically in another. What works with one group of staff, aspiring politicians, sports profession-

als, students or offspring might be met with resounding sullen silence by others. The consistently successful manager identifies the right way to treat the group being managed and its individual members.

An excellent example can be found in the works of the highly successful British football manager Brian Clough. He (with his assistant Peter Taylor) worked wonders with players at Hartlepool United, Derby County and then Nottingham Forest in the 1960s, 1970s and 1980s using what can be summarised as a combination of praise, money, social incentives and derision.

Using the same style at Leeds United (without the balancing influence of Peter Taylor) famously cost



him his job as manager there after only 44 days (read the excellent book *The Damned United* by David Peace or watch the not quite so excellent film of the same name to see for yourself).

Sir Alex Ferguson, the hugely successful long-term manager of Manchester United Football Club, is one of the highest profile managers in any industry in the world. In a managerial career that began in 1974 at East Stirlingshire FC in Scotland, he repeatedly demonstrated an ability to persuade highly talented individuals, some with a monstrosly developed self-esteem, to work to his instructions while remaining creative.

A short passage in a book by journalist Oliver Holt about Ferguson and Bill Shankly, the late great Liverpool FC manager, illustrates the point well: 'Shankly loved footballers,' writes Holt. 'Just like Ferguson. He studied them, knew them, understood them, muttered in their ears like a horse whisperer. Kicked some, patted others. Encouraged some, scolded others. Nurtured some, exiled others. He devoted himself to them. Which is why he was such a good judge of them and why he was able to do what so few managers ever achieve and build not one, but two, great sides at Anfield.' Bill Shankly resigned from his job at ▶

*"The consistently successful manager identifies **the right way** to treat the group being managed and its individual members."*

Finding the tipping point between financial and social incentives (continued)

By **Frank Hartmann**

Liverpool unexpectedly in 1974, and died in September 1981, aged 68. Many commentators suggest that his decision to resign was premature and contributed to his relatively early demise. If they are right, it is clear that retirement can be extremely bad for your health. Managers worth their salt should carry on managing for as long as they can.

The book *If you're second you are nothing: Ferguson and Shankly* was published in 2006 by Pan Macmillan. As a summary of the essence of good, instinctive, people-specific, intuition- and knowledge-based management, it would be very hard to beat that single brief paragraph. No jargon. No waffling. Just managing.

At this point, I would ask readers to forgive the extensive football analogies but I am a passionate fan of the Dutch football club NEC. Identifying means to incentivise this team helps motivate a good deal of my research.

Even more so since my own 12-year-old son Julian recently began to play for the club at under-13 level. Striking the right balance in terms of incentives to keep him focused on academic as well as sporting development is educational in itself.

Changing times

The results of the experiment that the team I worked with carried out as research have convinced me of two things. One, that readers who work in the field of social sciences need to be prepared to face, and welcome, significant change over the next decade or so. The testing, selection, recruitment, development and retention of personnel could be affected in the future as awareness grows of behavioural connections.

Two, finding the tipping point between financial and social incentives is a highly important issue. Economists will stress the financial element.

Psychologists will stress the social element. There is no single correct answer that can be applied to each and every situation. It is striking the right balance in the right situation that is the key. Making incentive systems work is vitally important for the overall functioning of organisations and society.

In our experiment, we tested 47 subjects performing the AX-CPT (continuous performance) task to compare the activation of cognitive control modes under social pressure and monetary incentive beyond mere instructions to perform better. We identified three elements that help boost performance in a given task involving qualities such as concentration and effort. The first is simply instructing people to perform better. The second is offering a social incentive. The third is offering a financial incentive.

Our study provided the first known direct comparison of the effects of social pressure and monetary incentive on behavioural performance. Surprisingly, whereas the results showed the two incentive conditions to be comparable in their effect, much of the effect seems to be generated by the presence of explicit instructions to improve behaviour and accompanying monitoring of behaviour.

Our goal was to understand how two prominent formal control mechanisms – social pressure and monetary incentives – affect cognitive control strategies to enhance performance beyond the effect of issuing a simple instruction to perform better. Our results indicate that instructing participants to



improve their performance does lead to proactive control and performance improvement. Both monetary incentive and social pressure lead to further improvement. The best performance in terms of the highest accuracy and shortest reaction times is achieved under monetary incentive. But financial incentives do not work better than social incentives.

Not rocket science

What next? There is clearly much work still to be done in identifying the tipping point between carrot and stick and this study forms part of a wider set on which we are still working. We believe that some points are emerging clearly which could be of practical benefit to managers of all kinds in daily work, and life.

First, get rid of jargon-ridden clichés, banalities and platitudes. Second, think about fellow workers rather than focus on yourself. Third, identify the fundamentals in your industry, your business and your colleagues. The often arrant nonsense that we see repeated and repackaged as new wisdom only confuses management issues. Good management is not rocket science. We achieved it largely by using a very elementary contrived situation, which is a concentration task.

In the course of events, we established, proved and demonstrated that social pressure is as effective as monetary incentive. Even with a task typically used to underline the effectiveness of monetary incentive systems, we showed that social pressure works as well.

“...our findings provide an avenue to start reconsidering *the essential role of social pressure and monitoring in organisations, countering prevalent reliance on monetary incentives to enhance performance.*”

In this context, I cannot resist using another extract from the Shankly canon of anecdotes. Oliver Holt relates how a journeyman footballer called Jim McCann of Nottingham Forest had a two-day trial with Liverpool. He could not recall meeting Shankly and the trial was not a success, writes Holt. A couple of seasons later Shankly brought Liverpool to the City Ground (where Nottingham Forest play).

McCann stood in a group of apprentices watching their visitors stride towards the dressing rooms. Shankly caught his eye as he marched past and said 'Afternoon, James'. McCann felt 10 feet tall because the legend that was Shankly had remembered him and had spoken to him. I think the managerial implications are clear here. Treating people well is an essential ingredient of good management, not an optional extra.

Given the current debate in companies and society about the problems of increasing monetary incentives, our findings provide an avenue to start reconsidering the essential role

of social pressure and monitoring in organisations, countering prevalent reliance on monetary incentives to enhance performance.

The relative effectiveness of monetary incentives versus social incentives is a *big* theme in management. Traditionally, there are many opinions. Equally traditionally, there is little in the way of fact. With our experimental work, we are providing fact. ■

This article draws its inspiration from the paper *The Impact of Social Pressure and Monetary Incentive on Cognitive Control*, written by Mina Ličen, Frank Hartmann, Grega Repovš and Sergeja Slapničar, and published in *Frontiers in Psychology* 7:93. DOI: <http://dx.doi.org/10.3389/fpsyg.2016.00093>

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