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OP-ED CONTRIBUTOR

## What's the Value of a Big Bonus?

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BY withholding bonuses from their top executives, Goldman Sachs and UBS may soften negative reaction from Congress and the public if their earnings reports in December are poor, as is expected. But will they also suffer because their executives, lacking the motivation that big bonuses are thought to provide, will not do their jobs well?

Of course, there are many reasons to be disgusted with executive pay. It feels unfair that so many people make so much money managing our money, and it is often difficult to see how their talent and abilities justify their compensation. We find it particularly offensive when executives receive high bonuses after disastrous performances. But doesn't the promise of a big bonus push people to work to the best of their ability?

To look at this question, three colleagues and I conducted an experiment. We presented 87 participants with an array of tasks that demanded attention, memory, concentration and creativity. We asked them, for instance, to fit pieces of metal puzzle into a plastic frame, to play a memory game that required them to reproduce a string of numbers and to throw tennis balls at a target. We promised them payment if they performed the tasks exceptionally well. About a third of the subjects were told they'd be given a small bonus, another third were promised a medium-level bonus, and the last third could earn a high bonus.

We did this study in India, where the cost of living is relatively low so that we could pay people amounts that were substantial to them but still within our research budget. The lowest bonus was 50 cents — equivalent to what participants could receive for a day's work in rural India. The middle-level bonus was \$5, or about two weeks' pay, and the highest bonus was \$50, five months' pay.

What would you expect the results to be? When we posed this question to a group of business students, they said they expected performance to improve with the amount of the reward. But this was not what we found. The people offered medium bonuses performed no better, or worse, than those offered low bonuses. But what was most interesting was that the group offered the biggest

bonus did worse than the other two groups across all the tasks.

We replicated these results in a study at the Massachusetts Institute of Technology, where undergraduate students were offered the chance to earn a high bonus (\$600) or a lower one (\$60) by performing one task that called for some cognitive skill (adding numbers) and another one that required only a mechanical skill (tapping a key as fast as possible). We found that as long as the task involved only mechanical skill, bonuses worked as would be expected: the higher the pay, the better the performance. But when we included a task that required even rudimentary cognitive skill, the outcome was the same as in the India study: the offer of a higher bonus led to poorer performance.

If our tests mimic the real world, then higher bonuses may not only cost employers more but also discourage executives from working to the best of their ability.

We later did a variation of the same experiment, at the University of Chicago, to look at a different kind of motivator: public scrutiny. We asked 39 participants to solve anagram puzzles, sometimes privately in a cubicle and sometimes in front of the others. We reasoned that their motivation to do well would be higher in public, and we wanted to see if this would affect their performance. But we found that while the subjects wanted to perform better when they worked in front of others, in fact they did worse.

So it turns out that social pressure has the same effect that money has. It motivates people, especially when the tasks at hand require only effort and no skill. But it can provide stress, too, and at some point that stress overwhelms the motivating influence.

When I recently presented these results to a group of banking executives, they assured me that their own work and that of their employees would not follow this pattern. (I pointed out that with the right research budget, and their participation, we could examine this assertion. They weren't that interested.) But I suspect that they were too quick to discount our results. For most bankers, a multimillion-dollar compensation package could easily be counterproductive. Maybe that will be some comfort to the boards at UBS and Goldman Sachs.

*Dan Ariely, a professor of behavioral economics at Duke, is the author of "Predictably Irrational: The Hidden Forces That Shape Our Decisions."*

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