



Perverse incentives



During the time of British rule in India, the government became concerned about the number of cobras in Delhi.

To reduce this problem, the government offered a bounty for every dead cobra and initially, the program was wildly successful. Large numbers of snakes were killed for the reward and the government took a moment to pat itself on the back.

However, as cobras became harder to find, it became apparent that by breeding cobras, people would have a steady income. A new cottage industry was born!

Once the government became aware of this, they scrapped the reward program which left the snake-pre-neurs with a writhing mass of now worthless snakes.

Their solution? The snakes were set free, leading to a massive increase in the wild cobra population!

Incentives vs motivation

By focussing on only short-term goals, businesses could end up being the cobra farmer of the story. Those short-term goals could create perverse incentives that can hurt your business in the longer term.

Subsidies or incentives don't start out as perverse. However, human behaviour and decisions can become locked into this reward structure and without a change in attitudes, behaviours can become off target and inefficient. Plus, people could begin to see such incentives as a 'right'.

Although humans react well to incentives, encouraging innovative solutions in your business means making use of the intrinsic motivations in your workforce.

Doing the right thing to reap long term benefits may be harder but it's what we should be aiming for. And it's what we should be encouraging in our staff.

A moral hazard?

In the world of economics, a moral hazard can occur when there is an incentive to increase a business' exposure to risk because the business knows it won't bear the full cost of the risk.

For example, if your laptop isn't insured, you may take more care. You'd be more likely to be aware of putting it away safely and having a protective case. However, if your laptop is fully insured you may be more careless about its use because you know it can be easily replaced at little to no cost to you (leaving aside the fact that you had paid the insurance premium and possibly an excess for replacement).

But moral hazards don't only apply to things. In a lab setting, consider whether incentives or benefits will introduce a moral hazard for your staff members and displace your business goals.

If staff receive an incentive once they've processed more than 15 samples in a day, they could rush through their work to achieve the goal. But the outcome could be errors in testing and incorrect results leading to extremely negative effects for your business. So, how can we make sure that our goals do not inadvertently produce negative business outcomes?

Setting good goals is the key

Sitting down to set goals sounds hard. And being faced with a blank piece of paper or a blank screen makes it seem even harder.

Try breaking the process into manageable bite size pieces, one goal at a time.

With a solid plan to work towards, you can get into the specifics with your employees. Explain why the goal has been set and what the expected outcomes are. This piece is critical in preventing those perverse incentives from becoming the bane of your business' existence.

Put together an action plan that details who will do what and their timeline. Breaking this down further into daily, weekly, and monthly actions will make this feel even more achievable.

Keeping staff members motivated and accountable by allowing them to take charge of these tasks is an excellent way of turning goals into reality.

Support them to drill down into their specific goals and develop a tracking method that works for them. This could be as simple as using their Outlook calendar for prompts or an Excel spreadsheet to track progress.

Staying on track

Setting those goals and pointing your staff in the right direction isn't enough.

Check in regularly with them by carving out some time to see how things are tracking. Be sure you're available to address any problems that may occur.

And of course, if something goes wrong or something changes (a key staff member leaving, for example) be ready to alter your plans and strategy.

Down the track, set aside some time to examine your long and short-term goals. Examine the short-term goals and see where your team performed particularly well. This could help your future planning and make your future objectives more realistic and achievable.

How can we help?

Sometimes having another perspective can make all the difference.

Maree is a highly experienced and well-respected accreditation and management consultant. But perhaps more importantly, as a small business owner, she can discuss your business plans and goals from a personal perspective.

Contact Maree on 0411 540 709 or email info@masmanagementsystems.com.au to arrange a confidential discussion.

Remember you don't have to do this alone!