The Psychology behind Reward

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SOME DEFINITIONS

- **Psychologist:**
  - Man who goes to a strip show and looks at the audience.
- **Psychology**:
  - Study of the id by the odd.
- **Psychologists' greeting each other:**
  - "You're fine; how am I?
- **Business guru**
  - Word used by journalists because they can't spell charlatan.
- **Business consultant:**
  - A simple organism designed to translate bullshit into air-miles.

- **Psychologist:**
  - The next person you start talking to after you start talking to yourself.
- **Psychologist:**
  - A professional who asks you a lot of expensive questions your partner asks you for nothing.
- **Psychologist:**
  - A person who studies the problems of others in an attempt to understand their own problems.
- **Psychiatrist:**
  - A doctor who can’t stand the sight of blood.
- **Psychotherapy:**
  - The art of teaching people how to stand on their own feet while reclining on couches.
- **Psychoanalysis**
  - The science that enables us to correct faults by confessing our parent's shortcomings.

What Top People are Looking For

% of respondents who rate the item critical in their decision of which company to join and stay with

Exciting work

- ✓ *Interesting, challenging work* 59%
- ✓ *Work I feel passionate about* 45%
- I am listened to and can impact decisions 41%
- Take initiative and success 40%
- Have impact in company 35%
- Freedom and autonomy 31%
- Participate in strategic decisions 22%
- Encouraged to innovate 22%

Development

- ✓ *Career advancement opportunities* 37%
- ✓ *Long-term commitment to me* 35%
- ✓ *Build skills to boost career* 35%
- ✓ *Sr. managers committed to me* 30%
- ✓ *High performers promoted* 30%
- Frequent feedback 17%
- Receive helpful mentoring 16%
- Ongoing training 14%

Lifestyle

- Can meet my personal/ family commitments 51%
- Live in appealing region 34%
- Reasonable work pace 11%
- Flexibility of when/where I work 9%

Wealth and Rewards

- ✓ *Recognised, rewarded for my individual contribution* 39%
- ✓ *Substantial wealth creation opportunity* 36%
- ✓ *High performers paid more* 31%
- ✓ *Annual cash comp is high* 26%

Great company

- ✓ *Company well-managed* 48%
- ✓ *Good relations with boss* 43%
- ✓ *I like the culture and values* 39%
- ✓ *I trust the senior management* 38%
- Not hampered by bureaucracy 30%
- ✓ *Exciting, interesting industry* 24%
- Industry has growth prospects 22%
- Products make a difference 21%
- Company is strong performer 19%
- Company's reputation 17%
- Camaraderie with colleagues 13%
- Contribution beyond the bottom line 9%
- People with diverse backgrounds 8%
- Positive impact on society 6%

✓ and italicised items = make up the elements that have a strong causal relationship with satisfaction (McKinsey et al., 2000)

Most and least important skills and attributes for effective leadership (Corporate Leadership Council, 2001)

Ten most important characteristics

1. Honesty and integrity 61%
2. Clearly communicates expectations 49%
3. Recognises and rewards achievements 39%
4. Adapts to changes 37%
5. Inspires others 34%
6. Puts the right people in the right roles at the right time 33%
7. Has passion to succeed 33%
8. Identified and articulates long-term vision for future 31%
9. Persuades and encourages others to move in desired direction 31%
10. Accepts responsibility for success or failure 29%

Ten least important characteristics

31. Committed to your continuous personal relationships 11%
32. Thinks analytically 10%
33. Sensitive to others' needs 10%
34. Has perseverance 8%
35. Creates clear work plans and timetables 8%
36. Breaks down project into manageable components 7%
37. Strong commitment to diversity 5%
38. Properly manages relationships with third parties 5%
39. Has years or experience in positions of management 2%
40. Is original 1%

Two Sources of Satisfaction

Skilled White-collar workers

1. Interesting work
2. Opportunity to develop special abilities
3. Enough information
4. Enough authority
5. Enough help and equipment
6. Friendly and helpful co-workers
7. Opportunity to see results of work
8. Competent supervision
9. Responsibilities clearly defined
10. Good pay

Unskilled Blue-collar workers

1. Good pay
2. Enough help and equipment
3. Job security
4. Enough information
5. Interesting work
6. Friendly and helpful co-workers
7. Responsibilities clearly defined
8. Opportunity to see results of work
9. Enough authority
10. Competent supervision

The Central Problem for All Management

Employees

Manager

	Good	Bad
Retain	✓	?
Let Go	?	✓

What Makes Good Employees Choose to Stay

- Market Forces

  Good Competitive Pay/Conditions/Options
- Few Alternatives

  Area, Work-Life Balance
- Managers (Not Management)

  Colleagues, Morale
- Personality and Values

  Commitment and Satisfaction

Healthy and Unhealthy Turnover?

Healthy Turnover	**Unhealthy Turnover**
Good for both parties	Sudden changes
Natural “Stint”	Losing best people
Short-term commission	Associated with absenteeism, theft, corruption
Part of a stage	

Go & Stay: Alienation and Commitment

- **Alienation**

Powerlessness

- No control/freedom in the job
- Feels dominated by management and technology
- Inability to influence anybody or anything

Meaninglessness

- Inability to understand the meaning of work activities
- Unable to predict events and outcomes

Normlessness

- A belief that only illegal/immoral/underhand methods have to used to be successful

Isolation

- A feeling of self-estrangement; of not being part of a social network; of having no intrinsic satisfaction

Commitment:
Loyalty, Dedication, Identification

- **Identification**

-Of goals, values, products of the organisation

- **Job involvement**

-Interested

- **Loyalty**

-Fondness, value alignment

- **Engagement**

-Fully committed

Managing People at Work:
Simple but important guidelines

Management is essentially about:

- Setting and agreeing clear, agreed, attainable goals (KPIs, KRAs)
- Giving people feedback on their progress
- Giving them the support they need to achieve their goals
- Rewarding good attainment
- Developing capabilities for future roles

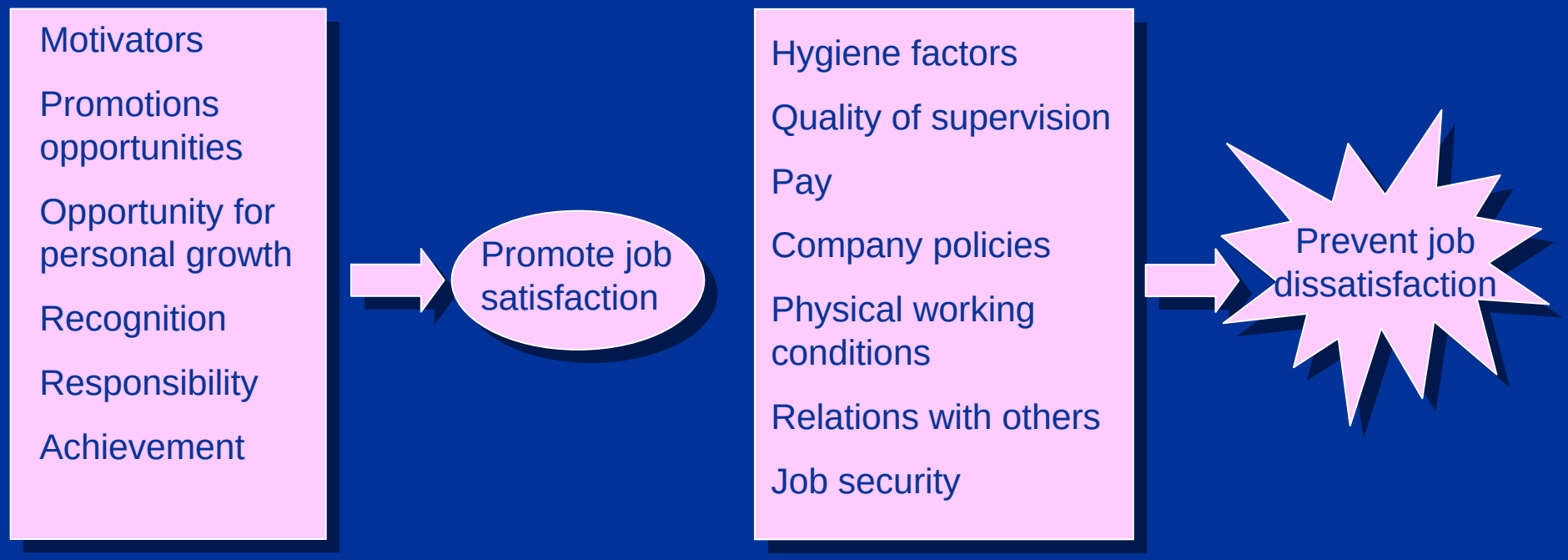
Is Money a Taboo Topic?

- Rich people, who dictate etiquette, eschew discussing their money lest the poor figure out how to get it for themselves. Or because friends and relatives might want it or become envious of it.

- It is superstitious to talk of money: it means it could be taken away.

- Boasting about money could encourage envious others to inform tax authorities.

- On some levels we know our attitudes to money reveal a lot about us which we would rather keep private.



Herzberg's Two-Factor Theory

Herzberg's *two-factor theory* suggests that job satisfaction and job dissatisfaction stem from different sets of factors. These are labelled *motivators* and *hygienes*, respectively.

Everyday Money Language

Sacred

Pennies from heaven

Almighty Dollar

Forgiving Debt

Organic/Nature

Doesn't grow on trees

Windfall

Husbanding resources

Hands/Touch/Tactile

Cash in hand

Handling money

Put it away so I can't touch it

Throw money at a problem

Anality/Dirt

Filthy rich

Stinking Rich

Dirt Poor

Cold hard cash

Tight-arse

Motherhood/Orality/Food

Lap of Luxury

Milking the cash cow

Nest Egg

Money Hungry

Expensive Tastes

Dough

For love or money

To coin a phrase

Circulation/Flow

Blood money

Splashing money around

Pooling resources

Cash Flow

Morality/Sexuality

Loose money

Easy money

Modest means

Diminish

Embarrassment of riches

Modest means

Money isn't everything

A small fortune

A bob each way

It's only money

Virtuous/Pure → Natural metaphors → Dirty/Disgusting

MONEY AS A MOTIVATOR

- More a de-motivator if salary is not “market-place” competitive.

  (Hygiene factor, not a motivator)

- Very short term effect because
  - Adaptation: effect disappears rapidly
  - Comparison: now against a different group
  - Alternatives: other things (security) worth more
  - Increased worry: taxation, burglary

Motivation

Intrinsic

Extrinsic

Kohn: Direct, specific, monetary rewards reduce motivation to do creative work.

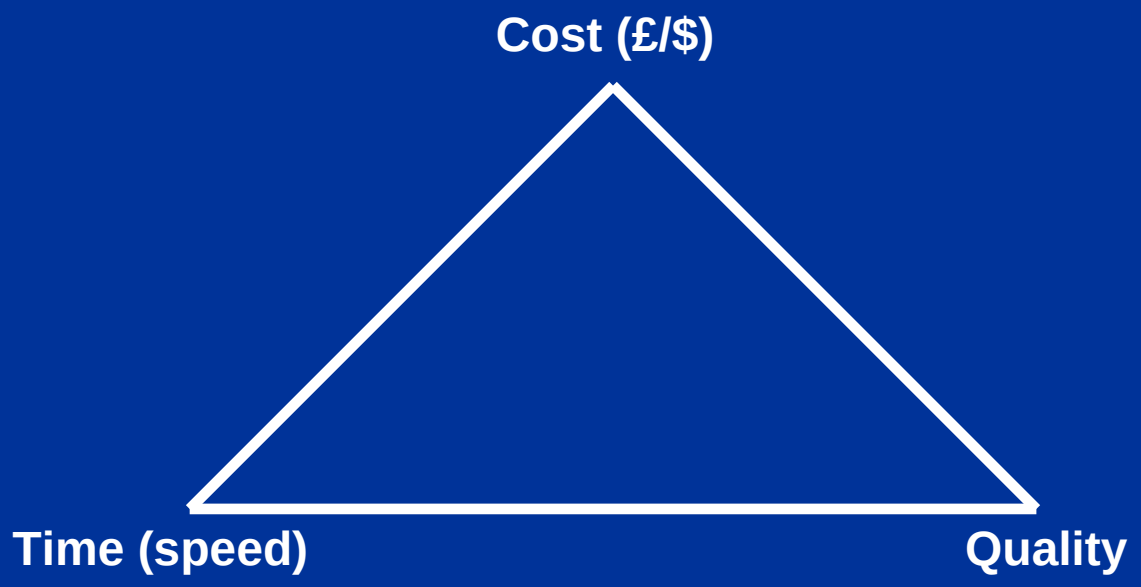
Eisenberger: All behaviour is positively shaped by (monetary) rewards.

Does intrinsic motivation decrease with extrinsic rewards?

But all jobs have a mix of intrinsically and extrinsically interesting features and levels of difficulty.

Intrinsic motivation is increased by a sense of mastery, competence, skill acquisition, control and self determination.

The Trade-Off Dilemma in all business



If it is *Quick and Cheap* ..it is probably of poor *Quality*

If it is *Quick and Good Quality* ..it is probably going to be very *Expensive*

If it is *Cheap and Good Quality* ..it will probably take a *very long time to make*

Latent Functions of Work

- **Work is a source of activity**

It keeps people occupied, interested and active

- **Work structures time**

It gives daily life reference points; regularities

- **Work gives an opportunity for social interaction**

It gives one a friendship and social support network

- **Work provides a source of identity**

It gives people a sense of your status in society and values

- **Work provides a source of creativity and mastery**

It provides the feeling that one has achieved something worthwhile and useful

- **Work gives a sense of purpose**

It makes people feel needed and stops alienation

Incentives

- Merit pay/pay for performance
- Bonus system
- Individual vs Group Equity + Equality

Pay Method

- *Piece work.* Here workers are paid according to how much they produce. It can only be judged when workers are doing fairly repetitive work where the units of work can be counted.
- *Group piece work.* Here the work of a whole group is used as the basis for pay, which is divided between them.
- *Monthly productivity bonus*. Here there is a guaranteed weekly wage, plus a bonus based on the output of the whole department.
- *Measured day work.* This is similar except that the bonus depends on meeting some agreed rate or standard work.
- *Merit ratings.* For managers, clerical workers and others it is not possible to measure the units of work done. Instead their bonus or increments are based on merit ratings by other managers.
- *Monthly productivity bonus.* Managers receive a bonus based on the productivity of their departments.
- *Profit-sharing and co-partnership.* There is a guaranteed weekly wage, and an annual or twice yearly bonus for all, based on the firms profits.
- *Other kinds of bonus*. There can be a bonus for suggestions which are made and used, competitions for making the most sales, finding the most new customers, not being absent, etc.
- *Use of other benefits.* Employees can be offered other rewards, such as medical insurance or care dependents.

Effectiveness of merit-pay and bonus-incentive systems in achieving various desired effects

Type of compensation plan	Performance measure used	Desired Effects			
		Tying pay to performance	Minimising negative side effects	Encouraging co-operation	Gaining acceptance
Merit-pay Systems					
For Individuals	Productivity	Good	Very good	Very poor	Good
	Cost-effectiveness	Fair	Very good	Very poor	Good
	Ratings by superiors	Fair	Very good	Very poor	Fair
For Groups	Productivity	Fair	Very good	Poor	Good
	Cost-effectiveness	Fair	Very good	Poor	Good
	Ratings by superiors	Poor	Very good	Poor	Fair
For Organisation as a whole	Productivity	Poor	Very good	Fair	Good
	Cost-effectiveness	Poor	Very good	Poor	Good
Bonus Systems					
For Individuals	Productivity	Very good	Fair	Very poor	Poor
	Cost-effectiveness	Good	Good	Very poor	Poor
	Ratings by superiors	Good	Good	Very poor	Poor
For Groups	Productivity	Good	Very good	Poor	Fair
	Cost-effectiveness	Fair	Very good	Poor	Fair
	Ratings by superiors	Fair	Very good	Poor	Fair
For organisation as a whole	Productivity	Fair	Very good	Poor	Good
	Cost-effectiveness	Fair	Very good	Poor	Fair
	Profit	Poor	Very good	Poor	Fair

Emotional differences between men's and women's reactions to money

In the past year, can you recall associating money with any of the following?

	Women (%)	Men (%)		Women (%)	Men (%)
Anxiety	75	67	Distrust	23	25
Depression	57	46	Sadness	22	20
Anger	55	47	Respect	18	19
Helplessness	50	38	Indifference	16	16
Happiness	49	55	Shame	13	9
Excitement	44	49	Love	10	13
Envy	43	38	Hatred	8	7
Resentment	42	31	Spite	9	8
Fear	33	25	Reverence	2	5
Guilt	27	22	None	2	5
Panic	27	16			

- My mother said only poor people went to heaven.
- My father said only criminals were wealthy.
- My parents warned me not to let anyone know we had money or they would jinx us.
- My parents said I was a popular kid because they were rich enough to have a house with a tennis court. They told me quite plainly that if one was without money, one would be without friends.
- My parents told me I had to grew up to be a success, or, being financially unsuccessful themselves, they would end up ‘charity cases’.

(Matthews, 1991, pp.70-1)

- My mother always said a smart woman doesn’t ever let a man know she's capable of making money.

- My father always said there was a ‘secret’ to making money, but that no one in our family knew what it was. Making lots of money was something of which only ‘other people’ were capable.

- My parents, who were quite well off, never let me spend a dime without my begging and pleading. They said I must never forget that we could ‘wake up poor in the morning’. Sometimes I would like awake at bedtime, afraid to close my eyes for fear I would wake up hungry and cold.

(Matthews, 1991, pp.70-1)

Pocket Money/Allowance

- When to start a system
- Agreement about rules:
  - How much
  - When paid
  - What covered
- Related to chores
- Increase over time
- Advice + Help

Money Madness

- ***Security***
- Emotional life jacket, security blanket, method of starving off anxiety (compulsive saver, self denier).
- ***Power***
- Money can be used to acquire importance, domination and control (manipulate, godfather).
- ***Love***
- Money can buy affection, loyalty, self worth (love buyers, sellers and stealers).
- ***Freedom***
- Money buys time to pursue whims and interests free one from daily routine and restrictions.

Money as Security

A. The Compulsive Saver

- For them saving is its own reward. They tax themselves and no amount of money saved is sufficient to provide enough security.

B. The Self-denier

- Self-deniers tend to be savers but enjoy the self-sacrificial nature of self-imposed poverty. They may spend money on others, to emphasize their martyrdom. Psychoanalysts point out that their behaviour is often a disguise for envy, hostility and resentment towards those who are better off.

C. The Compulsive Bargain Hunter

- Money is fanatically retained until the situation is “ideal” and then joyfully given over. The thrill is in out-smarting others – both those selling and those paying the full price.

D. The Fanatical Collector

- Obsessed collectors accumulate all sorts of things, some without much intrinsic value. They turn to material possessions rather than humans as potential sources of affection and security.

Money as Power

A. The Manipulator

- These people use money to exploit others' vanity and greed. Manipulating others makes this type feel less helpless and frustrated. Their greatest long-time loss is integrity.

B. The Empire builder

- They have (or appear to have) an overriding sense of independence and self-reliance. Repressing or denying their own dependency needs, they may try to make others dependent on them. Many inevitably become isolated and alienated, particularly in their declining years.

C. The Godfather

- They have more money to bribe and control so as to feel dominant. They often hide an anger and a great over-sensitivity to being humiliated – hence the importance of public respect. But because they buy loyalty and devotion they tend to attract the weak and insecure. They destroy initiative and independence in others and are left surrounded by second-rate sycophants.

Money as Love

A. The Love Buyer

- Many attempt to buy love and respect: those who visit prostitutes; those who feel unloved not unlovable and avoid feelings of rejection and worthlessness by pleasing others with their generosity.

B. The Love Seller

- They promise affection, devotion and endearment for inflating others' ego. They can feign all sorts of responses and are quite naturally attracted to love buyers.

C. The Love Stealer

- The kleptomaniac is not an indiscriminate thief but one who seeks out objects of symbolic value to them. They are hungry for love but don't feel they deserve it.

Money as Freedom

A. The Freedom Buyers

- Money buys escape from orders, commands, even suggestions that appear to restrict autonomy and limit independence. They want independence not love : in fact, they repress and hence have a strong fear of dependency urges.

A. The Freedom Fighters

- They reject money and materialism as the cause of enslavement of many. Frequently political radicals, drop-outs or technocrats, they are often passive-aggressive and attempt to resolve internal conflicts and confused values. Camaraderie and companionship are the main rewards for joining the anti-money forces.

Are people rational?

- Psycho-logical rather than logical.
- Prone to inconsistencies

Generational differences

- Reflect attitudes to and behaviour regarding…
- Borrowing, Credit, Debt, Insurance, Spending
- Different groups
  - Traditionalists
  - Baby boomers
  - Generation X
  - Millennials
- Cohort and life cycle or real generational differences

Traditionalists

- Conservative savers?
- Victims of welfare and state promises
- Anti-credit, anti-debt.
- Mend and make do stoics.

Baby Boomers

- Risk-takers and hedonists.
- Investors + achievement-oriented
- Idealistic materialists
- Future oriented and optimistic

Generation X

- Alienated + disenchanted
- Now oriented + credit addicts?
- Self-absorbed but directionless

Millenials

- Materialistic & security conscious.
- Parent dependent for longer
- Used to long term debt
- Financially semi-savvy?

The Seven Deadly Sins of Investing

- **Confirmation Bias:**
  - Only looking for information and news which is in favour of your ideas
- **Optimism Bias:**
  - Believing that you are above average and that misfortunes are more likely to befall others
- **Illusion of Control:**
  - Overestimation of the control you have over economic affairs thinking that you can always influence the outcome
- **Overconfidence in Prediction:**
  - Believing that your prognostication of the future is the best one
- **Risk and Regret Aversion:**
  - Either being too cautious to invest or to risky to get out (risky shift; Shift to Caution)
- **Group Think:**
  - Responding to conformist pressure to think like others
- **Memory Distortion:**
  - Selective forgetting and memory for past experience in the financial world

What should banks know and do

- Acknowledge that many well-educated, sophisticated adults remain ignorant and embarrassed about money. It is a thin line between being patronizing, educative, and perplexing.
- Find out what each client thinks about money. What are the emotional associations and “hot buttons”.
- Remember each type needs a different sales strategy and possibly a different product.
- Explain the mythology, symbolism, imagery better – more psychology, and use it in marketing.
- Be confident. You will be somewhere between a psychiatrist, hairdresser, and gynaecologist because of your role as confidant.