# Behaviour, incentives and rewards

MODULE 5 | PART C.3 | STUDENT COMPANION

## How controls are used

### Diagnostic control

- Feedback against plan
- Correct deviations
- Managers step in by exception

### Interactive control

- Senior managers involved in staff decisions
- Signals what really matters
- Stronger influence on behaviour

**Participation in target setting builds commitment; imposed targets rarely motivate**

## Power and culture

| Idea | Remember |
|---|---|
| Culture | Shapes which measures exist (tight accounting control vs short-term profit focus) |
| Dominant coalition | The most powerful group - finance, engineering or sales - may differ from the organisation chart |
| Why measures persist | Systems take hold when they fit power, culture and shared views about goals and technology |

## Six dysfunctional behaviours

**Tunnel vision**
One target, nothing else

**Sub-optimal behaviour**
Hit the target, then stop improving

**Substitution**
Less effort where no one is watching

**Measure fixation**
Chase the number, not the performance

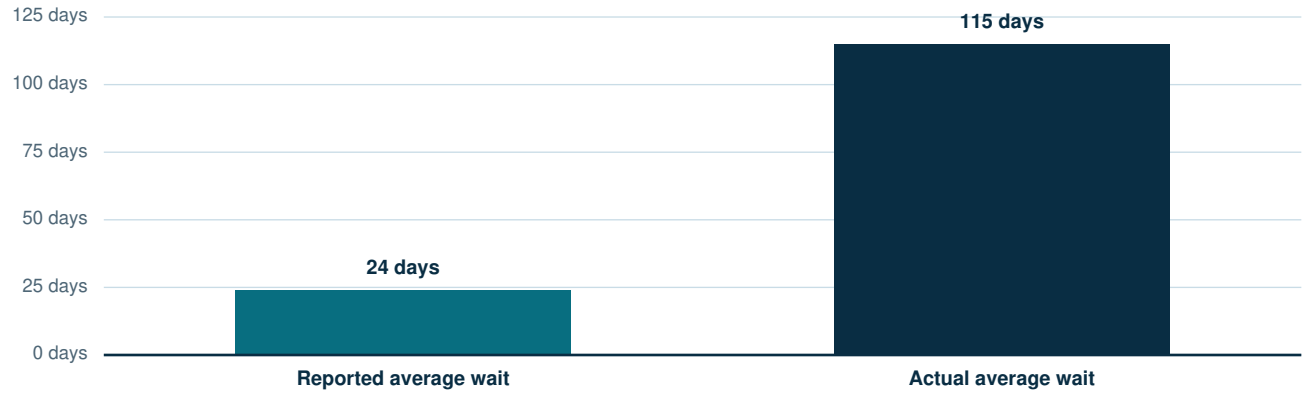
**Gaming and biasing**
Make results look better - even falsify

**Smoothing**
Shift results between periods

**Sources of bias: the reward system, recent practice and norms, managers' insecurity**

## When the measure lies

**Phoenix VA health system, 2014 (days)**




**About 1,700 veterans waiting for care were not on the official list (VA inspector general, May 2014)**

**Case note:** the US Department of Veterans Affairs had a 14-day appointment goal, with bonuses linked to wait-time performance. The inspector general found the Phoenix system reported an average 24-day wait against an actual 115 days, and that scheduling problems were systemic; Secretary Eric Shinseki resigned on 30 May 2014.

Sources: VA Office of Inspector General interim report (28 May 2014) as reported by NPR and KFF Health News; Defense One and CBS News, 30 May 2014.

## Designing incentives and rewards

**Carrots and sticks**
Financial and non-financial rewards; sanctions from lost bonuses to dismissal

**Short and long term**
Defer part of the reward until performance is sustained

**Timing**
Close enough to link reward to effort - not so fast it breeds short-termism

**Group or individual**
Individual needs controllability; interdependent work suits group rewards

**Watch the handover problem:** a manager who cuts maintenance, training or marketing may be rewarded and promoted, leaving a successor who looks worse while repairing the damage. **Profit-based group bonuses** build teamwork and align with shareholders, but individual influence is small and pressure can encourage gaming.

# Practice questions

MODULE 5 | PART C.3 | TRY THESE BEFORE THE WORKED ANSWERS

## Question 1 - Name the behaviour

| Situation | Behaviour |
|---|---|
| (a) A help desk closes tickets before problems are fixed to meet a 'tickets closed' target | |
| (b) A team stops improving once it hits its quarterly target | |
| (c) Sales staff ignore after-sales service because only sales are measured | |
| (d) A manager shifts December sales into January to even out results | |
| (e) A hospital focuses only on emergency waiting times while surgery lists grow | |

## Question 2 - Design an incentive

Design an incentive scheme for the regional managers of a home-care provider that rewards growth without encouraging rushed visits or falsified records.

## Question 3 - Group or individual?

Should a surgical team be rewarded individually or as a group? Explain using controllability and interdependence.

# Worked answers

MODULE 5 | PART C.3 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

## Question 1 - Name the behaviour

| Situation | Answer |
|---|---|
| (a) | Gaming (and measure fixation) |
| (b) | Sub-optimal behaviour |
| (c) | Substitution |
| (d) | Smoothing |
| (e) | Tunnel vision |

## Question 2 - Design an incentive

Balance growth (new clients, hours delivered) with quality (client satisfaction, care-plan audits, complaint rates) and staff measures (retention, training). Use audited data and random record checks; defer part of the bonus a year and tie it to sustained quality; add non-financial rewards (recognition, development); and use measures interactively, discussing results with managers rather than only ranking them.

## Question 3 - Group or individual?

Group. Surgical outcomes depend on highly interdependent work (surgeons, anaesthetists, nurses), so individual contributions are hard to isolate and individual rewards could undermine teamwork. Team rewards on outcomes, safety and patient experience fit, with individual development recognised separately.