

15.301/310, Managerial Psychology  
Prof. Dan Ariely  
**Lecture 9: Labor and Compensation**

Used to meet 3x week, 1 hr, if meet 1.5, more class time  
More difficult to schedule other classes?

-yes, hits 2 slots

1x week for 3 hrs?

-yes

-during day, or night?

-evening 7-10

-3 hr friday

Now back on time, I gained info, we can start

Guess what? This class is going to be what?

Exciting, interesting, insightful

Learn a lot, sorry it ends

Today we will talk about some aspects of work

Where have you worked?

-Golf technology

-wear the Chucky suit at Chucky Cheese

How many liked your job so far? How many would like to go back to your job for the next 10 yrs?

What made you happy about this job?

-people worked with, funny, nice

Social atmosphere at work very imp

-fact knew make money

-exiting

What was exiting?

-fun, pressure

What is it about that makes exiting?

-pressure, win or lose

Intangible rewards, challenge, sense of progression

-gratifying to build things people might use

-enjoyed task, process of working towards something

Inputs for why people work  
Bazaar aspects of people working

We think people work because they need money

Think about things you said, not about money  
Except one, enjoy idea of making money

Other things important besides having food and clothing.

Have money, would still work?  
You have a trust, \$3000 a month, don't need to work, would you still work?  
Not many people would say no, and in this group, I think the majority would say yes.  
What are the other things that work gives you that are the important things?

Why would you work?  
If you are a boss, need to figure out why people work  
If it's not just about the money, have to think about how do we motivate people?

Standard perspective (slide)  
Standard model in economics, when people work for us, we buy their time

Like animals working in a cage, can do something else, or work for food pellet. But only reason work is for reward  
If animal very hungry, work to get food pellet  
Turns out, even for animals, this model wrong  
If squirrel option nuts in or out of shell, prefers in shell  
Prefer to work for nuts than get free nuts  
So this model not just wrong for people, also wrong for squirrels

This assumption, theory – people work for money – nothing else relevant but money  
So how do we motivate people?  
We pay them.  
How do we motivate them more?  
We pay them more.  
How do we motivate them less?  
Pay less.  
Simple equation with one variable, how much we pay.  
Today we see this simple perspective not accurate on multiple grounds

All the aspects you described about the joy of work

Talk about:  
Relative vs absolute levels of compensation (like last wk)  
Payment vs performance

Meaning of labor, joy we get

Relation, payment, effort, motivation, performance

Older people have jobs,

1<sup>st</sup> description of self includes, often the first thing they mention is their job: I'm Joe, I'm a carpenter, etc. people take a lot of pride in labor – what is the meaning of that?

Sabotage. When people take advantage of the company they work for, when they destroy things. Computer viruses, break furniture, do things they do not benefit from just to ruin, revenge

1<sup>st</sup> topic – relative vs absolute compensation

What can we say about this topic?

- relative matters more than absolute compensation

You might think people would look at absolute compensation, see what it can get them, what they can buy

But in fact very few people think this way.

How many of you have gone through and said, what is the lifestyle I want, and let me think about the cost of that lifestyle, and infer a profession that will allow that lifestyle?

Not very many

Reality, people should care absolute but in fact very few people work this way

Lifestyle, infer profession, not often

Like doing x, how do I want to behave?

Few decisions based on abs comp

Imagine 2 people

A \$80,000 80-100 company range

B \$70,000 50-70 company range

Who would you rather be, person A or person B?

A? B?

Have to admit, seems silly to choose person B

So let's not talk about you.

How many other people happier A than B? B than A? (more)

So, other people are clearly going to be stupid.

One thing to think about choice, another to ask about happiness.

Which will stay longer? Work harder? Be more loyal to company? Recommend others to company

Probably 2<sup>nd</sup> person, right?

Relative salary more important to happiness w/ job

When making decisions, sometimes we don't recognize this  
If 2 job offers of this nature, hard to explain to parents if chose B. or self or friends. But  
be happier

Happiness at least partially determined by relative salary; relative to what? What are  
some factors that we consider?

-last year, if raise

People like to be paid more over time  
Actually difficult

Assumes More valuable to co. when stay longer, but sometimes decline in profession as  
get older  
But salaries not reflect.  
People very upset if wages get cut.  
People would leave immediately.

Issue of wage increase very important  
Many people can't afford to retire, but unhappy getting 1/2 pay

Solution, keep people work, pay them less but not make unhappy with that?  
-charity work

What if they need money?

Switch people jobs  
further away switch to new job, easier it will be  
Why don't we take as a plan, people to retire from higher paying job and offer them to be  
teachers?

Relative to last year and what else?

-friends and neighbors  
Wife's sister's husband  
-people in your field

From all of those, biggest determinant is social ones

Last week, I talk to MIT alumni  
One was manager in big investment company.  
Took salaries of all into 1 database  
Worried most that this database would leak out  
And people would find out what everyone else was making

How many people would be happy with this process?

-1

Chances are everyone finds someone gets paid more than them, think they shouldn't

Say you work for Fidelity and you know when people find each other's wages, is very dangerous. What can you do?

- justifiable performance measure

- everyone same salary, bonus system

- non-cash compensation

Cars, yachts, nobody figure out exactly how much worth

What else?

One approach, prevent people from talking to each other

Imagine divide by floors based on salary

Talk to neighbors, but try to minimize

Want to end by saying relative salaries are crucial, few people understand how what a big factor it is

Next topic, what happens when people work for nothing?

You think people would work for nothing? Sometimes, right?

Scenario 1. you are about to move to new apt, who would you ask for help, friend or professional mover. What would you offer them in return?

Professional, offer money. How about friend?

- beer

- dinner

Why? Why not money?

- then you employ them

Something very odd about paying friend to help

example

How would you feel about going to thanksgiving dinner at your mother's house, getting out checkbook at the end? Very odd.

Company

How would motivate your employees? Cash, gifts, bonus?

What would make you decide to go one way or the other ?

What are some of the factors you would consider?

For example, hourly wages or monthly wages

What effect would it have?

- trick people by monthly, people divide by 4 weeks, but month often longer

- salary motivate to put in extra hours

- monthly = long term

- cash and gifts, related to co. performance

- monthly, new company, want people to put in lots of hours, paid by hour might turn out more

Analogy to remember – want to propose that people work for things that look like friendship and things that look like movers, by hour, box.

If pay by hr, minute, for each thing they do, Can ask, if pay like that, how relationship being defined. What would people do for us? What would we do for them?

Vs friendship, not pay, but willing to do a lot for each other  
Extreme of Pay per performance could be counterproductive  
Friendship a much more powerful force, get people motivated, excited  
Not for every profession, but could be relevant

So here are 3 basic theories of why people work.  
All assuming promise salary, no other pay, just working. No fear of firing, etc

-If pay people and can't fire them, like professors w/ tenure, people will do nothing  
Doesn't matter how much you pay, can't fire, no incentive to work  
People just selfish

Another approach  
-Reciprocity, pay me more I work harder  
Pay nothing, work none, little work little, a lot, work lots

-final, altruism. Internal motivation. I Love this job, just work as much as I can  
Love you, if you ask me to do something, I'll just do it as well as I can because I care for you. Doesn't matter how much paid, driven by other motivation

Fisk has concept of 4 types of relationships.

Communal sharing, authority ranking, equity matching, market pricing

1<sup>st</sup> 3 about social relationship, exchange. Authority ranking, for example, is a superior-subordinate relationship, like parent-kid. I tell my kid what to do, he doesn't. But it's still a relationship.

last about money only

Will call 1<sup>st</sup> 3 social market, last money market

What we predicting? Relationship between payment and effort will depend on the type of exchange

Effort in money market like reciprocity

Social market, work max output w/o regard to pay

What happens when we don't pay people? Actually a very important point.

How many have done things don't get paid for? so you volunteer all kinds of things.  
How come?

You're working, but not getting paid

More importantly, How would you feel if instead of nothing, I paid you \$1 for every hour you volunteered? Would you be more or less likely to volunteer? Perhaps less likely, right?

Intrinsic and extrinsic motivation

For example,

Take kids, pay to do homework, stop pay, stop working

Big problem in Canada now, think about offering 4000 bonus to increase grades

Probably work . why working? I get 4000 bonus. No bonus? Forget about it

Another

By Kinesian Roticini

2 kids went collecting donations

Kid getting no money worked harder

Kindergarten in Israel

Please don't be late. Please don't be late. One day, instituted a fine. Late pay \$1

What happened?

More people late. Why?

Give it a price, people willing to make the exchange

Very happy to be late for \$1

Dollar, pay dollar to be late

Very strange happens when add money to relationship.

The proposal:

Social market – work hard

When money not mentioned, think you are volunteering

If I say, give you a dollar

Change from social to financial exchange.

If I ask you right now to come help me change the tire on my car, you might say fine.

If I say, will you come change tire for \$1, all of a sudden changes the relationship.

Changed from friendship, social exchange, to financial exchange.

By adding payment

If someone works for you, charge for everything, chance they will do something more for you if you ask, is much lower

Friendship – building relationship where both people care about same objective

Experiments

How likely help people move couch into van?

(slide)

No payment, low, or middle

Cash, candy, monetarized candy (here is a 50 cent choc bar...)

Candy, people worked same as for nothing. When don't mention money, people are happy to work.

Mention money, people very sensitive to how much you're offering.

High payment, work as hard as for candy or nothing.

While you are upset if I offer \$1

Just a survey

Tried to do it for real.

Ball, drag to square. How much will people do

People upset w/ small amount of money, not small candy bars

Small payment, don't get upset at small candy bar.

When don't mention money, people happy to work.

Another:

Add up to 100 (slide)

Find it?

Gave people 4 of those, and another unsolveable

How much people work at task

.50, \$5, candy bar, priced candy bar

People work less hard for money than they work for nothing

What is this suggesting?

Enough we mention how much gift cost us, becomes money market

Don't say at all, social market

Or when pay with something

Mark Twain (slide)

People work hard for nothing, but change money to work, makes less appealing

Other examples

Paying to help,

Martial arts instructor

Not charge

One day, students wanted to pay him for his efforts

He said, if I charge you, you couldn't afford me.

Work for free, but if charge, won't teach

For him as well, willing to work for nothing. If pay him, want to get market price,.

They can't afford it

Again, payment changes the relationship dramatically  
How do you make people in a company feel more like a social relationship?  
How do you make it not like paid sex, but love sex?  
You want people to be excited, motivated. You don't want it to be just about being paid.

I for one think people should think about how to integrate more social aspect to employees and companies

Topic 1

Ok, topic 2

Sex analogy should summarize entire topic

What happens at very high level of compensation?

Usually, think pay people more, they will work harder, be more productive.

Talk about performance based action

People work hard, make a lot based on performance

Soccer player

A lot of professions like that

Know money, performance not necessarily linked

What about a lot of money? What will happen then?

Asked some Stanford students, what do you think will happen if we pay people more money

People said basically, if give people more money, they will work harder

However, something called the Duckett postulate

Experiment

Rat, some places safe, some electrical shock, rat had to find out where was safe

Varied amount of shock

As increased shock, performance increased. But above some level, performance decreased

Getting very high pay, very high shock, not follow

As arousal goes up, some level where arousal is too high, performance goes down.

Offer more money, better, after certain amount of money, performance will drop.

How many do better on exams than practice exams?

Students get paid by grades

Sales people, so on

Incentives and performance not always linked, the love of money

Asked Stanford students, what would happen  
Intuition, more money, people work harder, more effective

Yerkes-Dodson law

Varied shock given  
Above some level, performance decreased  
Explained – as arousal changes, goes up and at some level goes down

Certain level, offer people too much money and their performance level drop.

How many people do better exams than practice exams?  
Practice exam than exam?

Some think pressure too high

Think paid a lot of money to do well would help?

Not only grades on the line, if you get B or above, I'll give you \$1000  
Better or worse?

Many people say do well under pressure. Some say, this would push me over the edge

Proposing, pay people more, will try harder. If I offer \$1 or a million, will try harder for million than for 1. Question is, will effort always transfer to performance  
If offered million for do well on 301 exam, how much just translate to more anxiety?  
How much will translate to effort and how much to pressure

To test this, went to rural India  
Not that diminishing returns, at some point –less- effective

7 tasks  
Went to poor villages, monthly expenses \$10  
Could pay a lot of money for them  
Few things  
3 levels of payment  
Low payment, performed below level, got nothing, good, better, 0-4 rupees  
0-40, 0-400  
400 is about a month's salary  
Took about 2 min to play, could get a month's salary

Initially, experimenter gave money, then say would take back  
RA horrified

Creativity, concentration, motor skills, bluffing

Capture something like poker  
The games  
Riddle, fit all pieces in space

Low-mid pay, performance went up a little, not significant  
Pay more, performance down  
When payment high, almost no one able to do it  
A lot of money on the line, no one able to solve

Meas performance level reached,  
Total money made

This is terrible.  
Pay 100x more, performance went dramatically down

-can you tell on this graph where groups are?  
The three pts

Pay a lot of money, very stressed, not very successful

We showed results to people in investment company, they said, oh does not happen to us.

We never get stressed, we are experts in this.

Not clear to me. How much time to practice?  
Lat days of work, nothing gets don, think of bonus

India:

Simon  
Pay people more, remember less

Recall 3 digits  
86642864913. what were the last three? very good, you all did great, there was no  
money on the line.  
More money, less able to remember 3 digits

Bluffing game  
Coin flip  
If get you to guess wrongly, I get money. Guess correctly, you get paid  
Goal try to deceive  
Money = so stressed something seeps out

Labyrinth  
Dart ball  
Roll up game

Overall, pattern clear. Never did better if pay more  
Pay people more, not always worse, but never did better

Can people predict this effect?

Maybe in workplace, people never get pay too much

Intuition wrong  
People don't understand performance will go up then down

Implications clear – some point have to think about how people are being paid  
If you had a company, had people working for you,  
How would you change how you pay them? What would you do?

-vast majority won't make as much

One argument, reason people get high salaries is to motivate other people, not themselves

-Are there studies about if people get used to that?

Might be few people like that. Basketball players, chess experts.

But the theory is not about money, it's about stress.

Speed of serves at Wimbledon  
If wealthy, not need money, not stressed by money

Point is if someone needs the money for something, "if I don't do well, I won't go to college next year" that affects performance.

What else do in terms of workforce?

-create titles that sound more important

How do you pay people, but make it less stressful?

Not give bonus once a year- huge effect! – every week

-can randomize, sometimes give bonus for performance, sometimes not

Very good suggestions

So, summary, we often assume payment like this, linear, but actually like this (slide)

Next thing

Idea of flavor and meaning

Why do people work?

What are other things people get out of work?

Money for time?

Work, work, hit certain level then had enough?

All emailed surveys assignments to TA?

Any ?s ?

In that survey, asked ?s

Wanted to know

What level people w/o money work harder and people w/ money don't work hard

Rat – hungry, work hard for food, chubby, nothing could get him to work

-lower paid jobs , more likely less interesting tasks

Part - ?s we don't know answer to

Can think of low paying jobs that are meaningful

In fact, could argue people willing to do meaningful jobs for less money.

Nonprofit why pay little? More meaning, less money

What have we done in lab to test this idea of meaningful labor?

People come, build something out of Legos. Get paid 3, 2.70, 2.40 for first, next, etc until 0

Condition 1, told would be taken apart for next person, but not taken apart until after left  
2nd condition, take apart on the spot

Seeing work destroyed in front of eyes is very de-motivating. In fact, students stopped working much faster

1<sup>st</sup>, was correlation how many built with how much liked Legos

2<sup>nd</sup>, no correlation

Destroying in front of eyes, suck away any possible enjoyment they would have had

Think about it, lots people live like this.

Dig hole, then fill it up.

Move stuff here to here, then move back

Lot of life for lot of people that work seem pointless

Takes time to give employees reason why they do what they do,

Might come up w/ better outcome

Secretary

No idea what I do, why I do it, why would anybody want to do this? Run experiments?

Sees submit receipts for chocolate, Legos...

What do we really do?

Could say, don't want to take the time

Could also say, Let me spend some time explaining to him why we do what we do

2<sup>nd</sup> approach more time consuming, but eventually more beneficial

You would be surprised how many people in different organizations have no idea what the thing is trying to do

Lot of people just peons, do what they do, little machines

Think about what motivates them

Very small things make people improve their motivation

Surveys

1. Look and put pile

2. just Put pile

3. Shred it, not look, nothing

3<sup>rd</sup>, very disheartened, stopped working very fast

Life very much like shredder. How many people think papers submit to classes will be carefully read and analyzed?

They are. Just so you know.

Lot of stuff like that

Small changes to meaning,

Karl Marx argued for reason

The amazing thing is how small meaning can be and how big an effect it can have.

Last topic of sabotage

Very interesting problem

Destroy things in own company

Recently a case, security camera showed Provost kicking and breaking furniture in one of the classrooms

Benefit nobody

Billions of dollars a year go to sabotage.

Computer virus, coffee on peoples computers,

All kinds of things

No incentive, Just want to hurt company. Pure revenge

Hard to study

So created the following experiment:

Hired BU student in acting school to annoy people

Survey, 5 min, will give \$5, please sign receipt, back to get receipt later

Actually gave people \$9

Would people tell him they were overpaid (9)

1. gave people survey

2<sup>nd</sup> condition: pretended phone call, talk to friend for a minute. Annoyed some people.

Will change tendency to return \$?

Absolutely yes

Annoyed, very few returned money

Not annoyed, very much returned money

Capture sabotage

So we did All kinds of versions

Apologized, took phone call, shouldn't have taken it. – reversed people to normal

Told people his thesis vs not know research– would people take it out on me, transfer?

not make diff

Even if boss annoying, revenge on whole company

Remember exp here – # solve correctly?

Annoyed, cheated much more

Revenge if excuse to do it

Trying to promote idea, think of employees as social relationship, not just financial exchange

Talked about labor and meaning

sabotage

Prevent hem from being unhappy, likely be much better

Labor – people work for a lot of diff reasons, not just about money.

Incentives part of it, not everything

Lot of the capital we have is people, who is working for us, how hard they work, how much they think about what they do when they go home, etc

Hours they put in

Winner figure out how to motivate people to work for them.