THE CENTER FOR Behavioral & Experimental Agri-Environmental Research

BEHAVIORAL INSIGHT BRIEF

Gains from Avoiding Losses

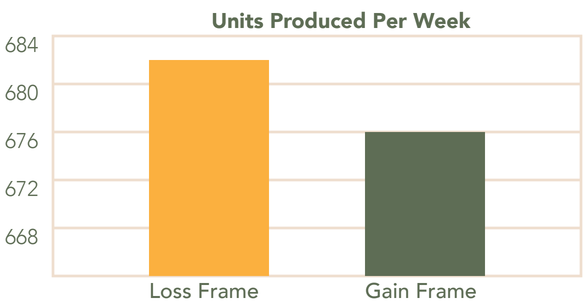
It's not just how much incentive you offer, but how you offer it

Background

Paying people based on performance is common, whether it be in our jobs or in voluntary conservation programs. But did you know that how one describes— or "frames"— the payment can affect performance? A manufacturing company discovered that how it framed its performance bonus to teams of workers affected the teams' output.1 All teams worked under the same bonus system, but some teams saw the system presented in a "gain frame" and others saw it presented in a "loss frame." The gain-frame teams were told that they would earn a bonus for each week they met a performance benchmark, up to an annual maximum payment. In contrast, the loss-frame teams were told that they would receive the maximum payment, but their payment would be reduced for each week the team did not meet the bench-mark. The teams who saw the loss frame produced more output, on average, than the teams who saw the gain frame. (see figure)

The loss-framed incentive contract harnesses something called "loss aversion." In many studies, people behave as if they weigh losses more than equivalent gains.2 When losses loom larger than gains in our psyche, we are willing to exert greater effort to avoid a $25 loss than to seek a $25 gain. So people, on average, work harder when an incentive contract is framed as working to avoid losses, rather than to acquire gains.

Although not every incentive program is amenable to loss framing, you may wish to consider whether a change to how your incentive program is framed is a cost-effective way to boost your program's impacts.



Success Story

Chicago teachers were offered a bonus tied to student performance. Some teachers received their bonus at the end of the year if their students achieved a perfor-mance benchmark on a standardized exam. Other teachers received their bonus at the beginning of the year, and had to pay it back if the benchmark was not achieved. The result? Math scores increased more, on average, for classes where the teacher faced paying the bonus back.

Applications

For voluntary conservation programs: Instead of telling operators how many points or dollars each practice adds, tell them the maximum number of points or dollars they can earn on their farm if they incorporate all eligible practices, and how much they lose for every practice that they eliminate from this set of practices.

For endangered species on private rural lands: For every additional acre of habitat or mating pairs, set a benchmark for the quantity of habitat or pairs, and a payment if that quantity is achieved. Then reduce the payment if the amount achieved is below the benchmark.

Design Tips

Think critically about the way in which you communi-cate your incentive programs. Rather than start where an operator is, and explain how much better the operator can do, start with the best the operator can do, and let the operator explain how much less he or she will do.

Testing Ideas

The impact of changes in the framing of incentive programs can be rigorously tested with randomized controlled trials. With testing, we can design evidence-based programs with high levels of participant satisfaction and environmental outcomes.

For references and more information about Gains from Avoiding Losses (Behavioral Insights Brief no. 5), visit www.centerbear.org or email CBEAR co-Directors, Paul Ferraro (pferraro@jhu.edu) and Kent Messer (messer@udel.edu).

Funded by USDA, CBEAR is a consortium of major research universities that uses the most modern science and methods to improve agri-environmental programs.