Large stakes and big mistakes

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Abstract
Most upper-management and sales force personnel, as well as workers in many other jobs, are paid based on performance, which is widely perceived as motivating effort and enhancing productivity relative to non-contingent pay schemes. However, psychological research suggests that excessive rewards can in some cases produce supra-optimal motivation, resulting in a decline in performance. To test whether very high monetary rewards can decrease performance, we conducted a set of experiments at MIT, the University of Chicago, and in rural India. Subjects in our experiment worked on different tasks and received performance-contingent payments that varied in amount from small to very large relative to their typical levels of pay. With some important exceptions, very high reward levels had a detrimental effect on performance.