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The Lessons from DECFP Impact Evaluations

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Our latest note shows how task specific bonuses in a mission-oriented nonprofit can undermine the organization's goals and larger mission if task complementarity is important.

Designing Wage Contracts in Multi-goal Organizations

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Economic theory has long suggested the use of monetary incentives to motivate workers. In practice, however, public bureaucracies and nonprofit organizations are driven by a broader mission that often involves multiple operational goals, not all of which may translate equally well into measurable indicators.

In such settings, the impact of rewarding a subset of goals will depend on cost complementarities, that is, how effort provision affects the disutility cost of effort; and on production complementarities, namely, how effort in the different tasks interacts to achieve each goal. Despite a substantial theoretical literature on worker incentives in nonprofits and bureaucracies emphasizing the role of complementarities, there is little empirical evidence on how such complementarities affect a worker's performance, and the implications of incentivizing specific tasks for the organization's broader mission.

The Intervention

We worked with the largest partner of a prominent development organization in Pakistan called the Pakistan Poverty Alleviation Fund (PPAF). PPAF and its largest partner—National Rural Support Program (NRSP)—share the same mission of reducing poverty. In particular, NRSP seeks to achieve this mission through two operational goals: building and strengthening community organizations of the poor and supporting poor households directly through small loans intended for investment in income generating activities. All NRSP field staff (Field Assistants or FAs) support both operational goals in their day-to-day interactions with poor communities.

We worked with NRSP to design and implement two pay-for-performance schemes for FAs to assess the nature of complementarities across these two organizational goals. The study was conducted in all 35 branch offices located in 15 districts across Sindh, Punjab, and Khyber Pakhtunkhwa provinces, where NRSP was active. This provided us with a sample of 162 FAs, who were randomly divided into three groups (two treatment groups, and one control group). To ensure that all FAs under a given management team were provided with the same bonus scheme, the randomization was done at the branch level.

FAs in the treatment group received one of two bonus schemes. The "social bonus" rewarded effort on tasks related to social empowerment, such as working with communities to create and strengthen organizations of the poor, while the "credit bonus" incentivized the health of the microcredit portfolio, which required disbursing micro loans to community members and ensuring their timely repayment. Treatment FAs that met their monthly target on the incentivized outcomes received a bonus added to their base monthly salary. The monthly bonus was capped at 20 percent of the base salary.

The bonus intervention lasted for 15 months. To discourage any intertemporal substitution of worker effort, treatment FAs were not informed in advance about whether and when the bonus would end. FAs in control branches continued to earn the (flat) base salary during this period.

Results

- *Credit bonus improved the microcredit program but it worsened the quality of community organizations (COs):* During the 15 months, FAs offered credit bonus performed 0.238 s.d. higher on an index of credit outcomes and 0.384 s.d. lower on the social index relative to control FAs.
- *Social bonus increased CO formation without worsening microcredit outcomes or CO quality, and improved client empowerment:* FAs offered social bonus formed 0.255 more COs per month than control FAs, and they performed 0.131 s.d. higher on an index of empowerment indicators. Among FAs working individually, FAs offered social bonus performed 0.297 s.d. higher on the credit index, and they were as effective as FAs offered credit bonus on improving the credit index.

These results indicate that both production and cost complementarities are empirically relevant. While cost complementarities alone could explain why the credit bonus improved credit-related outcomes and worsened social-related outcomes, they cannot explain why at the same time the bonus that incentivized social outcomes also improved the health of the credit portfolio.

- *Social bonus was detrimental to team performance on both the credit and social indices:* Among FAs working in teams, FAs with social bonus performed 0.269 s.d. lower in the credit index, and 0.182 s.d. lower in the social index compared to their control counterparts.
- *Social bonus undermined intrinsic motivation regardless of teamwork, and it exacerbated the propensity to free-ride among FAs working in teams.*

  The literature on intrinsic motivation argues that rewarding mission-related tasks can undermine intrinsic motivation and exacerbate free-riding. In our case, FAs clearly viewed the building and strengthening of COs as part of NRSP's core mission and rewarding such tasks backfired. In contrast, the credit bonus had no impact on intrinsic motivation or the odds of free-riding in teams.

Policy Recommendations

Our results have the following policy implications:

1) A proper understanding of task complementarities in cost and in production technologies is important, especially when incentives can only be provided for a subset of goals (perhaps because effort towards unrewarded goals is too noisy or too costly to measure).
2) Evaluations of microcredit programs have typically found small or negligible impacts on empowerment or other social-related outcomes. Our results offer one plausible explanation for this finding, since incentive structures that only reward the performance of the credit portfolio undermine social-related goals.
3) Finally, our results suggest that financial incentives that crowd out intrinsic motivation can also affect performance by undermining the willingness of motivated employees to work in teams.

For further reading see: Giné, Xavier, Ghazala Mansuri and Slesh A. Shrestha "Mission and the Bottom Line: Performance Incentives in a Multi-goal Organization", World Bank Policy Research Working Paper 8270, December 2017.

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