Incentive Gaming

This video introduces the behavioral ethics bias known as incentive gaming. Incentive gaming, or "gaming the system," occurs when we figure out ways to increase our rewards for performance without actually improving our performance.

To learn about a related behavioral ethics concept that also covers issues of risk and reward, watch *Loss Aversion*. To learn about ways to encourage ethical workplaces and avoid incentive gaming, watch *Ethical Leadership, Part 2: Best Practices*.

The case study on this page, "Gaming the System: The VA Scandal," describes how incentives that were meant to spur more efficient and productive healthcare for veterans did not have the desired outcome. For a related case study about an investment banker who took big risks to try to game his way out of major losses, read "The Collapse of Barings Bank."

Behavioral ethics draws upon behavioral psychology, cognitive science, evolutionary biology, and related disciplines to determine how and why people make the ethical and unethical decisions that they do. Much behavioral ethics research addresses the question of why good people do bad things. Many behavioral ethics concepts are explored in detail in ***Concepts Unwrapped***, as well as in the video case study ***In It to Win: The Jack Abramoff Story***. Anyone who watches all (or even a good part) of these videos will have a solid introduction to behavioral ethics.

Terms defined in our ethics glossary that are related to the video and case studies include: conflict of interest, diffusion of responsibility, loss aversion, and self-serving bias.

Discussion Questions

1. When have you been paid based on your performance, and how did this alter the way you approached your job (for the better and for the worse)?
2. Grades are partly intended to provide incentives for quality work. How do students strategically game grading systems in ways that might pervert this intent?
3. As a manager, what questions should you ask before implementing incentives for your employees?
4. Is gaming unethical, or is it just rationally responding to the incentive system? Whose responsibility is it to stop gaming: the person who designs the incentive system, or the person who exploits it?
5. How do you draw the line between gaming and cheating?
6. What are the long-term implications if students or employees frequently game systems? How might this hurt the way that organizations or society functions? How does this relate to trust?

Additional Resources

For resources on teaching behavioral ethics, an article written by Ethics Unwrapped authors Minette Drumwright, Robert Prentice, and Cara Biasucci introduces key concepts in behavioral ethics and approaches to effective ethics instruction—including sample classroom assignments. The article, published in the *Decision Sciences Journal of Innovative Education,* may be downloaded here: "Behavioral Ethics and Teaching Ethical Decision Making."

A detailed article by Robert Prentice with extensive resources for teaching behavioral ethics, published in *Journal of Legal Studies Education,* may be downloaded here: "Teaching Behavioral Ethics."

An article by Robert Prentice discussing how behavioral ethics can improve the ethicality of human decision-making, published in the *Notre Dame Journal of Law, Ethics & Public Policy*, may be downloaded here: "Behavioral Ethics: Can It Help Lawyers (And Others) Be their Best Selves?"

A dated but still serviceable introductory article about teaching behavioral ethics can be accessed through Google Scholar by searching: Prentice, Robert A. 2004. "Teaching Ethics, Heuristics, and Biases." *Journal of Business Ethics Education* 1 (1): 57-74.

Transcript of Narration

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"Organizations and institutions frequently use financial incentives to motivate productive behavior. The majority of people dislike effort to some degree, which forces authorities to either monitor people intensely to ensure that they contribute, or to pay them based on their observable performance. Salespeople are given commissions, bankers are given bonuses, and even teachers are paid for student performance.

The problem with these incentives, of course, is that you need to decide on which metrics to base the incentives, and then communicate those rules to people in order to motivate their performance. You can only pay people based on what you observe, and you can't observe everything. Which is why we get incentive gaming.

Incentive gaming is when people manipulate pay-for-performance schemes in ways that increase their compensation without benefiting the party that pays. Often referred to as "rewarding A while hoping for B", incentive gaming is an example of how opportunistic and strategic people can be when there are financial rewards involved. People will focus all their effort on those incentives that pay them the best, and will even manipulate information to represent their performance on those dimensions as higher than it actually is.

The financial crisis of 2008 provided several excellent examples of incentive gaming. Some mortgage brokers, who were paid commissions for originating mortgages, quickly learned they could earn more money if they relaxed the credit requirements for homebuyers. They were compensated based on originating a loan, not on whether that loan defaulted in subsequent years, a costly outcome for the bank and homeowner. The incentives designed to motivate effort and entrepreneurial behavior also motivate people to increase their earnings in ways that hurt both their customers and market efficiency.

Examples of incentive gaming are everywhere. When teachers are paid based on the standardized test performance of their students, they focus much of their effort on teaching to the test and hurt student education. When salespeople are given bonuses for reaching monthly sales targets, they offer customers unnecessary discounts to buy now rather than later. When workers are paid based on their relative rankings, they may focus their effort on sabotaging their coworker instead of improving their own performance.

The implication of incentive gaming is that managers and policy-makers need to understand that humans are clever and opportunistic beings. If you give them an incentive system, many of them will figure out how to manipulate it to maximize pay and minimize effort. Designers of incentive-based compensation systems must think carefully about unintended consequences, putting themselves in the shoes of their employees, and ask, “If I were given these incentives, what might I do to game them?””