

All Digital Rewards

INCENTIVE PROGRAM

Understanding How Behavioral Economics Influences Incentive Program Design

White Paper

Copyright © All Digital Rewards

Introduction

Incentive program design is a crucial aspect of human behavior management. It aims to align the incentives of an organization with the actions of its employees, customers, or partners by providing rewards or incentives for specific behaviors or actions. This can include employee recognition programs, customer loyalty programs, and sales incentive programs.

The process of incentive program design involves identifying the goals and objectives of the program, identifying the target audience, selecting appropriate rewards, creating a rewards plan, communicating the program, and regularly monitoring and evaluating the program's effectiveness. However, it can be a complex and multi-faceted process that requires careful consideration of various factors such as budget, legal requirements, and cultural norms.

What you will learn from reading this whitepaper is that behavioral economics research, which combines insights from psychology and economics, has played a significant role in understanding how individuals make decisions and how incentives can be used to influence behavior. It examines how people's emotions, social norms, and other factors affect their economic decisions, and how these decisions can be influenced by the design of economic policies and institutions. In this essay, we will explore the impact of behavioral economics research on incentive program design, the types of incentives, and the factors influencing the design.

Definition of Incentive Program Design

Incentive program design refers to the process of creating and implementing a structured program that provides rewards or incentives to individuals or groups to encourage specific behaviors or actions. This can include employee recognition programs, customer loyalty programs, and sales incentive programs. Incentive program design involves identifying the goals and objectives of the program, identifying the target audience, selecting appropriate rewards, creating a rewards plan, communicating the program, and regularly monitoring and evaluating the program's effectiveness.

It is a crucial aspect of human behavior management, as it aims to align the incentives of the organization with the actions of its employees, customers, or partners. Incentive program design can be a complex and multi-faceted process that requires careful consideration of various factors such as budget, legal requirements, and cultural norms.

Overview of Behavioral Economics

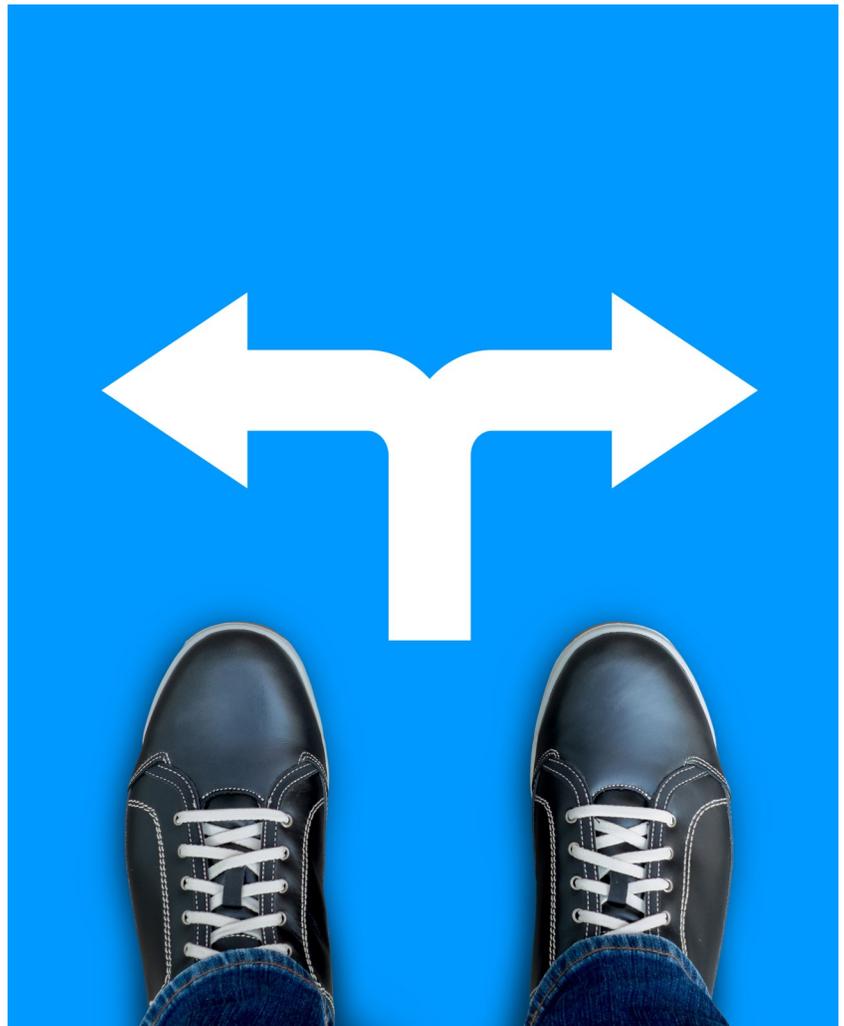
Behavioral economics is a field of study that combines insights from psychology and economics to understand why people make certain decisions and how those decisions can be influenced. It examines how people's emotions, social norms, and other factors affect their economic decisions, and how these decisions can be influenced by the design of economic policies and institutions.

One key area of research in behavioral economics is the study of heuristics, or the mental shortcuts that people use to make decisions. These heuristics can lead to biases and errors in judgment, such as overconfidence and the sunk cost fallacy. Researchers in behavioral economics also study how people's emotions, such as loss aversion and framing effects, can influence their decisions.

Another important area of research in behavioral economics is the study of social norms and how they affect economic decisions. This includes research on how people's behavior is influenced by the actions of others, such as the concept of social proof and the bystander effect.

Behavioral economists also study the role of institutions and policies in shaping economic decisions. This includes research on how the design of public policies, such as taxes and welfare programs, can influence people's behavior and how institutions, such as banks and courts, can be designed to improve economic outcomes.

Behavioral economics research has been widely used to design policies and institutions that are more effective and efficient at achieving their goals. For example, using behavioral insights to design taxes and welfare programs can help to increase participation and reduce fraud. Similarly, using behavioral insights to design financial products and services can help to increase savings and reduce debt.



Incentive Program Design

Incentive program design is creating and implementing an incentive program that effectively motivates individuals or groups to achieve specific goals or objectives. Incentive programs can be used in various settings, including business, education, and healthcare, and can be designed to target different populations such as employees, students, or patients.



1: Types of Incentives - Several incentives can be used in incentive program design. These include:

- a. **Financial incentives:** These include cash rewards, bonuses, and pay increases. Financial incentives often motivate employees to increase productivity or achieve specific sales targets.
- b. **Non-financial incentives:** Included are recognition, praise, and non-monetary rewards such as gift cards and merchandise. Non-financial incentives are often used in educational or healthcare settings to motivate students or patients to improve their performance or reach specific health goals.
- c. **Social incentives:** Social incentives include social recognition, such as being named "employee of the month" or receiving a cer-

tificate of achievement. Social incentives are often used in business or educational settings to motivate individuals to achieve specific goals and to promote a sense of community among employees or students.

2: Factors Influencing Incentive Design

- a. **The target population:** The design of an incentive program must consider the characteristics of the target population, such as age, gender, income level, and educational background. For example, a program targeting older

adults may require different incentives than one targeting younger adults.

- b. **Program goals and objectives:** The design of an incentive program must be aligned with the goals and objectives of the program. For example, a program aimed at increasing employee productivity will require different incentives than one aimed at reducing healthcare costs.
- c. **The budget:** The design of an incentive program must consider the available budget and the costs of the incentives. Financial

incentives may be more expensive than non-financial incentives, and the program design must be adapted to the available budget.

The organizational culture: The design of an incentive program must consider the organizational culture of the company or organization where the program will be implemented. The incentives and rewards offered should align with the organization's and its employees' values and beliefs.

Research has shown that incentive program design can have a significant impact on motivation and performance. A study published in the *Journal of Applied Psychology* found that financial incentives can be effective in increasing employee productivity and performance. Similarly, a study published in the *Journal of Management* found that non-financial incentives, such as recognition and praise, can be effective in increasing employee motivation and engagement.

Another study, published in the *Journal of Health Economics*, found that financial incentives can be effective in promoting healthy behavior and reducing healthcare costs. The study found that individuals who were offered financial incentives for achieving specific health goals, such as quitting smoking or losing weight, were more likely to achieve those goals compared to those who did not receive incentives.

In conclusion, incentive program design is a complex process that requires careful consideration of the target population, the goals and objectives of the program, the budget, and the organizational culture. Different types of incentives, such as financial, non-financial, and social incentives, can be used to motivate individuals and groups to achieve specific goals. Research has shown that incentives can be effective in increasing motivation and performance, but the design of the program must be tailored to the specific needs of the target population and the goals of the program.

Behavioral Economics Research

Definition of Behavioral Economics

Behavioral economics is a field of research that combines traditional economic theory with insights from psychology and other social sciences to understand how people make decisions. Behavioral economics aims to improve our understanding of how people make decisions, as opposed to how they should make decisions according to traditional economic models.

Behavioral Economics Principles

One of the key principles of behavioral economics is that people are not always rational actors. Traditional economic models assume that people are rational, and self-interested and make decisions based on a cost-benefit analysis. However, behavioral economics research has shown that people are often influenced by various cognitive biases and emotions that can lead

them to make decisions that are not in their best interest.

Examples of Behavioral Economics Research - Some examples of behavioral economic research include:

- **Nudge theory:** This research, popularized by behavioral economists Richard Thaler and Cass Sunstein, argues that small "nudges" in the environment can influence people's behavior without limiting their freedom of choice. For example, a workplace wellness program that automatically enrolls employees in a healthy eating program and makes healthy food options more visible and convenient is an effective

One of the key principles of behavioral economics is that people are not always rational



way to encourage healthier eating habits among employees.

- **Prospect theory:** This research, developed by behavioral economists Daniel Kahneman and Amos Tversky, argues that people's preferences are not always consistent and are often influenced by the "reference point" or the context in which decisions are made. For example, people are more likely to accept a small loss if presented with a larger potential loss.
- **Self-control problems:** This research, developed by behavioral economists George Akerlof and Rachel Kranton, argues that people often have difficulty controlling their impulses, leading them to make decisions that are not in their long-

term best interest. For example, people trying to save money may be more likely to make impulse purchases if exposed to advertising or other marketing messages that make them feel emotional.

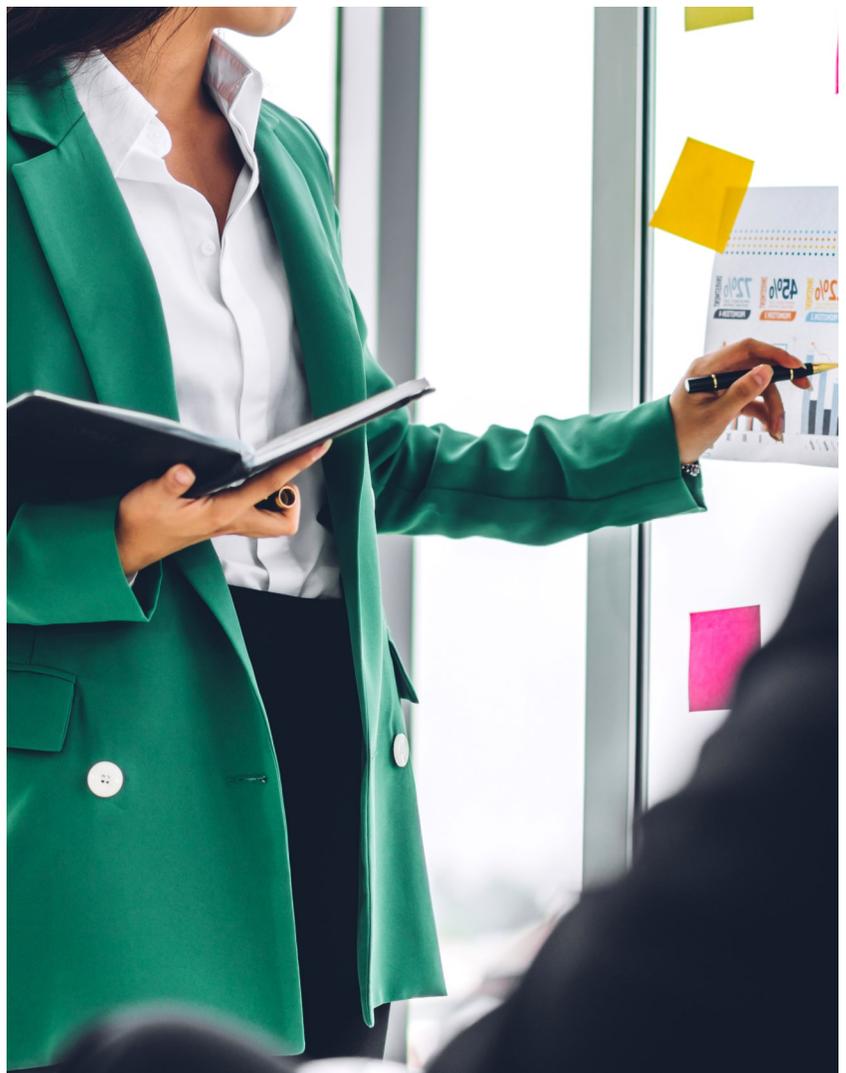
Behavioral economics research has important implications for policymakers and practitioners in various fields. By understanding how people make decisions, policymakers and practitioners can design policies and programs that are more effective at achieving desired outcomes.

Impact of Behavioral Economics Research on Incentive Program Design

Behavioral economics research has had a significant impact on the design of incentive programs, as it has provided insights into how individuals make decisions and how incentives can be used to influence behavior. Behavioral economics is a field of study that combines insights from psychology and economics to understand how people make decisions. It has revealed that individuals do not always make decisions based on rational calculations of costs and benefits, but rather are influenced by a variety of cognitive and emotional factors.

Behavioral economic principles have been used to design incentive programs that are more effective in motivating individuals to achieve specific goals or objectives. One of the key principles of behavioral economics is that individuals are more likely to engage in a behavior if it is easy and convenient to do so. For example, a study by the Journal of Consumer Research found that providing individuals with a small financial incentive to recycle, such as a small cash reward, led to a significant increase in recycling behavior.

Another key principle of behavioral economics is that individuals are more likely to engage in a behavior if it is socially desirable. For example, a study by the Journal of Environmental Psychology found that providing individuals with social recognition for recycling, such as a certificate of achievement, led to a significant increase in recycling behavior.



A. Impact on Types of Incentives

Behavioral economics research has also had an impact on the types of incentives that are used in incentive program design. For example, research has shown that non-monetary incentives, such as gift cards or merchandise, can be just as effective as financial incentives in motivating individuals to achieve specific goals or objectives. A study by the Journal of Consumer Research found that non-monetary incentives, such as a free movie ticket, were just as effective as cash incentives in motivating individuals to complete a survey.

B. Impact on Factors Influencing Incentive Design

Behavioral economics research has also had an impact on factors influencing the design of an incentive program. For example, research has shown that the design of an incentive program must take into account the characteristics of the target population, such as age, gender, income level, and educational background. A study by the Journal of Consumer Research found that incentives that are tailored to the specific needs and preferences of the target population are more effective in motivating individuals to achieve specific goals or objectives.

The insights provided by this field of study have helped to make incentive programs more effective in motivating individuals to achieve specific goals or objectives. Behavioral economics research has also had an impact on the types of incentives that are used in incentive program design and the factors influencing the design of an incentive program.

Conclusion

In conclusion, incentive program design is a crucial aspect of human behavior management, as it aims to align the incentives of the organization with the actions of its employees, customers, or partners. Behavioral economics research has greatly impacted the field of incentive program design, providing insights into how individuals make decisions and how incentives can be used to influence behavior. The principles of behavioral economics have been used to design incentive programs that are more effective in motivating individuals to achieve specific goals or objectives. Furthermore, behavioral economics research has also had an impact on the types of incentives used in incentive program design and the factors influencing the design of an incentive program. It is important to keep in mind that incentive program design is a complex and multi-faceted process that requires careful consideration of various factors such as budget, legal requirements, and cultural norms.

Sources:

Journal of Applied Psychology, "The Effect of Financial Incentives on Employee Performance: A Field Study"

Journal of Management, "The Impact of Nonfinancial Rewards on Employee Motivation and Engagement"

Journal of Health Economics, "The Impact of Financial Incentives on Health Behavior: A Review of the Literature"

Thaler, R.H., & Sunstein, C.R. (2008). Nudge: Improving Decisions About Health, Wealth, and Happiness. Yale University Press.

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263-292.

Akerlof, G.A., & Kranton, R.E. (2000). Economics and identity. *The Quarterly Journal of Economics*, 115(3), 715-753.

"The Impact of Incentives on Recycling Behavior: A Field Experiment" *Journal of Consumer Research*, vol. 38, no. 6, 2011, pp. 975-985.

"Social Norms and Environmental Behavior" *Journal of Environmental Psychology*, vol. 31, no. 4, 2011, pp. 327-337.

About All Digital Rewards

All Digital Rewards is a privately held company and a leading customer engagement specialist that works directly with companies, partner networks, and end-users to design and support employee, consumer loyalty programs, and incentives. With customized web portals and cloud-based advanced technologies, businesses are finding it easier to establish a personal relationship with customers and give the best customer experience possible. ADR is a technology company that provides programs for loyalty, recruitment, retention engagement and valuable analytics. With an extensive offering of incentive rewards including prepaid reward cards, merchant gift cards, check printing, digital rewards, merchandise, and travel ADR can service both the US and internationally. All solutions are supported by an experienced client success support team, including management and consulting.

Website: alldigitalrewards.com

Phone: 1 866-415-7703

Email: info@alldigitalrewards.com