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## NOTHING FOR MONEY

A BEHAVIORAL PERSPECTIVE ON  
INNOVATION AND MOTIVATION

BY NICOLAI ANDERSEN, TIMOTHY MURPHY,  
AND ALEXANDER BÖRSCH  
> ILLUSTRATION BY JON KRAUSE

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**A**ny garage band worth its salt knows the odds of becoming rock stars are against it. For a while, cutting albums was like printing cash, but physical media ebbed as streaming services flowed; traditional revenue streams dried up. A trio that wants to earn a single minimum wage—\$1,260 per month, these days—from online streaming services will struggle; the new tune will need to be played, for example, more than 700,000 times.<sup>1</sup> For most, royalty checks from streaming services amount to less than the postage it takes to mail them.

But people still learn to play instruments, write songs, and even record them. Fortunately, musicians' love for the music they make doesn't hinge on a promise of financial returns. Instead, the intrinsic value of their precious creative outlet is all that's needed.

The success of many organizations hinges on this same garage-band creative spirit. This is especially true for the fastest-growing labor force in most advanced economies, knowledge workers such as software engineers, consultants, and data analysts.<sup>2</sup> These are people with specific skill sets that demonstrate expertise in a specialized field. And in a digital and knowledge-driven economy, where innovation cycles are shrinking, organizations are relying more heavily on these individuals to engage in innovative activities that advance new strategies, products, services, and processes.<sup>3</sup> Complicating matters, many industries, such as financial services and retail, often do not have an established research and development (R&D) department. Instead they are forced to lean on their own knowledge workers to embody this innovator mindset.

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Initially paying individuals to participate in innovative activities may even be counterproductive. Instead, innovation is a creative outlet with its own set of inherent rewards. That is, innovation is *intrinsically* motivated.

So how do organizations effectively cultivate innovation? The knee-jerk reaction may be to simply pay individuals to engage in innovative behavior, but many businesses can't quite kindle innovation with the monetary incentives to foster ambition and professional growth.<sup>4</sup> In fact, initially paying individuals to participate in innovative activities may even be counterproductive.<sup>5</sup> Instead, innovation is a creative outlet with its own set of inherent rewards. That is, innovation is *intrinsically motivated*.

That means that businesses have reason for optimism, even if money alone cannot address the challenge of motivating innovation. Organizations can look to the field of behavioral economics, which couples economics and psychology to understand the irrational decisions people make about money for answers.<sup>6</sup> Insights from the field present us with explanations as to why financial incentives do not always act as efficient motivators for organizational innovation. In response to what does motivate individuals, a common theme emerges across much of the behavioral and organizational leadership literature: Social influences are a powerful agent to spark innovative behavior.

In this article, we discuss what drives innovation. First, we explain why intrinsically motivated behaviors, such as innovation, are difficult to direct with financial incentives alone. Then in an effort to answer what does effectively kindle an individual's intrinsic motivation to innovate, we explore the following three dimensions: the power of social recognition in innovation tournaments, nonmonetary reward systems that positively influence innovation, and organizational citizenship behavior.

### INNOVATION, A TOUGH CROWD

Following the rules of traditional economics, convincing employees to innovate should be relatively straightforward: Pay people more, get more effort in return, and direct that incremental effort toward innovative activities.<sup>7</sup> In many cases, these classic assumptions and corresponding incentives prove extremely effective at directing behavior. The sales performance incentive fund (SPIF) is a popular example of traditional economics in action. SPIFs are bonuses rewarded to salespeople for selling specific items. Unsurprisingly, organizations expect to see greater unit sales for the highlighted items when a SPIF is introduced.

But the world is not always this clean. Price increases do not always correspond to supply increases. Sometimes, motivations are more complex, and the intended impact of price changes does not yield the expected result.<sup>8</sup> As described in “HR for humans,” we are all victims of bounded self-interest. That is, instead of being solely motivated by our economic interests, we often care about many other factors as well—even if sometimes they inhibit our pure economic earnings potential. As a result, monetary influences don't always work out.<sup>9</sup> Instead, we are more sophisticated and thus more complicated thinkers; we also care about professional pride, fairness, and the greater good of a community.<sup>10</sup> Because of these things, sometimes introducing money in an activity results in unintended consequences.

A major hurdle with introducing monetary incentives to intrinsically motivated activities is the concept of *crowding out*, which occurs when monetary incentives actually mitigate a desired behavior. A popular experiment with puzzles sheds light on the concept.<sup>11</sup> Two groups were given the option to either work on solving puzzles or read magazines. In the first session, neither group was paid to work on the puzzles. During a second session, a treatment group was incentivized with one dollar for each puzzle solved, while the control group remained uncompensated for its efforts. During a third and final session, again neither group was incentivized for its puzzle-solving efforts. As a result, the group incentivized in session 2 significantly reduced its efforts on the puzzles compared with the control group. This suggests, paradoxically, that monetary incentives effectively crowded out the task's intrinsic

motivation and reduce future interest in the activity. Before, the task was completed with self-satisfaction and joy as its lone rewards; the introduction of money washed away those inherent rewards with only the extrinsic ones remaining.

Unfortunately, the crowding-out effect is also transferable. When paying for one type of main activity, such as doing one's "normal" responsibilities, it makes ancillary activities (such as innovation) less desirable.<sup>12</sup> Bruno Frey illustrates this concept with environmental policies. A monetary incentive to engage in environmentally conscious activity may be effective for an isolated behavior, but it acts as a disincentive to follow other environmentally sound practices where financial rewards are not present, thereby crowding out a universally desired behavior.<sup>13</sup> So if we incentivize someone to recycle aluminum cans, he may now be less inclined to recycle glass bottles as well until a reward is present. In essence, extrinsically rewarding intrinsic motivations can get messy; money can act as either a short-term incentive or, worse, a signal that naturally intrinsic motivations *should* be compensated.

### ***Why innovation is susceptible to the crowd***

In large, mature groups such as well-funded R&D departments, innovation is not only a primary responsibility for individuals but also a routine function of their roles. Since innovation is central and routine to the position, the traditional behavioral influences might be less present, and therefore people may be more easily motivated by extrinsic (monetary) incentives.<sup>14</sup> But this is often not the case for knowledge workers. These professionals often direct their innovation-related efforts toward smaller, more limited issues that fall outside their everyday responsibilities; they also reside outside of R&D departments or research institutes.<sup>15</sup> Because of this, these individuals do not perceive innovation as their "day jobs." Instead, engaging in these activities manifests itself in acts of intrinsic motivation. These innovative endeavors are not necessarily explicitly defined, and they carry a great deal of uncertainty. For cases like these, external motivators such as money are not easily directed. Two researchers in the field, Bhaduri Saradindu and Kumar Hemant, refer to this type of engagement as "grassroots" innovation and suggest that classical monetary incentives are not the primary driver to incentivize the intended behavior.<sup>16</sup>

Unlike R&D environments where innovation can be a long and expensive process, grassroots innovations are often small, incremental improvements to something that already exists. These types of innovations are done quietly within the organization. Absent an eye for future commercialization, these innovators seek to solve the smaller organizational problems on a day-to-day basis.<sup>17</sup> Grassroots innovations are the creative undertakings of the knowledge worker. They see a problem, they experiment, and they uncover a solution.

Between the unintended impacts of financial rewards and the necessity of grassroots innovation in almost every organization, we are left to wonder how to motivate and reward individuals in a way that uniquely speaks to their internal reward system. Crowding out complicates the introduction of external incentives. It's not that money is universally ineffective—it's just not the primary driver. Given that some rewards crowd out innovation, organizations can use behavioral economics to increase engagement and *crowd in* innovation.

### ***It takes a village***

Meaningful incentives often incorporate a social dynamic as part of a reward system, either in the form of environmental influences or the explicit rewards offered to would-be innovators. Since the decision to partake in innovative behavior encompasses a complex psychological process, it is necessary to address it in a multilevel manner. To do so, three social dimensions can help cultivate innovation in a grassroots environment. First, innovation contests and the social rewards that participants covet are a powerful tool. Second, organizations can implement social recognition reward systems, even if the innovation doesn't always pan out. Finally, stimulating organizational citizenship can persuade individuals to innovate on their own accord.

### **KINDLING COMPETITIVE SPIRIT**

**E**very organization encounters very specific problems they need to address. Issues such as fixing inefficient processes, meeting unmet market demands, or creating technical solutions hover over organizations without a team that's responsible for developing solutions. Instead, if no one is motivated to provide an innovative solution, a problem may linger in the background, never receiving the full attention it deserves. Or worse, no single individual or team feels adequately equipped to offer a feasible solution.

For cases such as these, an innovation tournament merits consideration. Innovation tournaments introduce a problem to either an internal or external audience with the objective of crowdsourcing the best solution from the masses in exchange for a monetary or nonmonetary prize for the winning idea. On the surface, it would appear that the motivating reward system ties directly back to a cash prize. Even though that would seem to run counterintuitive to discussions on what motivates individuals to innovate, research suggests that additional, intrinsic rewards are also present for participants.<sup>18</sup>

### *The hidden rewards of participation*

The obvious potential for a large cash prize is very much an extrinsic reward. But behavioral economics points to other motivating factors that both aid in the promotion of employee participation and mitigate the long-term crowding-out effects discussed earlier. Especially if participation in a contest is high, most participants inherently understand they may be innovating for free.<sup>19</sup>

A noted benefit of innovation tournaments derives from the reputational incentives that are inherently awarded to the victor of a contest. Regardless of business size, even with relatively small financial outlays, the reputational benefits gained by the victor appear to have encouraged participation in a tournament.<sup>20</sup> This speaks to an inherent need for social validation from our peer groups—often referred to as *social proof*.<sup>21</sup>

Evidence also suggests that even those who do not “win” derive benefits from participation. This is especially relevant when cross-functional teams are encouraged to participate. Working on these problems in teams engenders a sense of community within a group.<sup>22</sup> Members of this problem-solving community develop a new intrinsic motivation to bolster the group’s knowledge base. Through carefully designed tournaments, individuals gain a newfound satisfaction in contributing to a solution regardless of their individual potential to “win.” For internal contests, the effect may be even stronger due to the possibility that the solution will more directly benefit the community beyond the contest prize.

Deloitte’s\* own work in facilitating innovation tournaments has reinforced some of these same conclusions (see the sidebar “Deloitte Germany innovation contest” for contest details). In survey results following an innovation contest from Deloitte’s German Innovation Group, we noticed a number of not-so-obvious rewards gained by the participants beyond the potential prize outlet (see figure 1).<sup>23</sup> The most popular answer from the respondents (51 percent) was that their motivating factor was the opportunity to easily publish an idea. In other words, they just needed a creative outlet, and the contest provided just that. And while 20 percent of respondents cited participation for the chance to win one of the prizes, more individuals acknowledged the following three as popular contributing factors: opportunity for company visibility (31 percent), the intellectual challenge of the task (29 percent), and the knowledge that it is important for the company (29 percent). In summary, regardless of the initial extrinsic incentive, well-designed contests quietly lean on intrinsic social incentives to cultivate innovative behavior.

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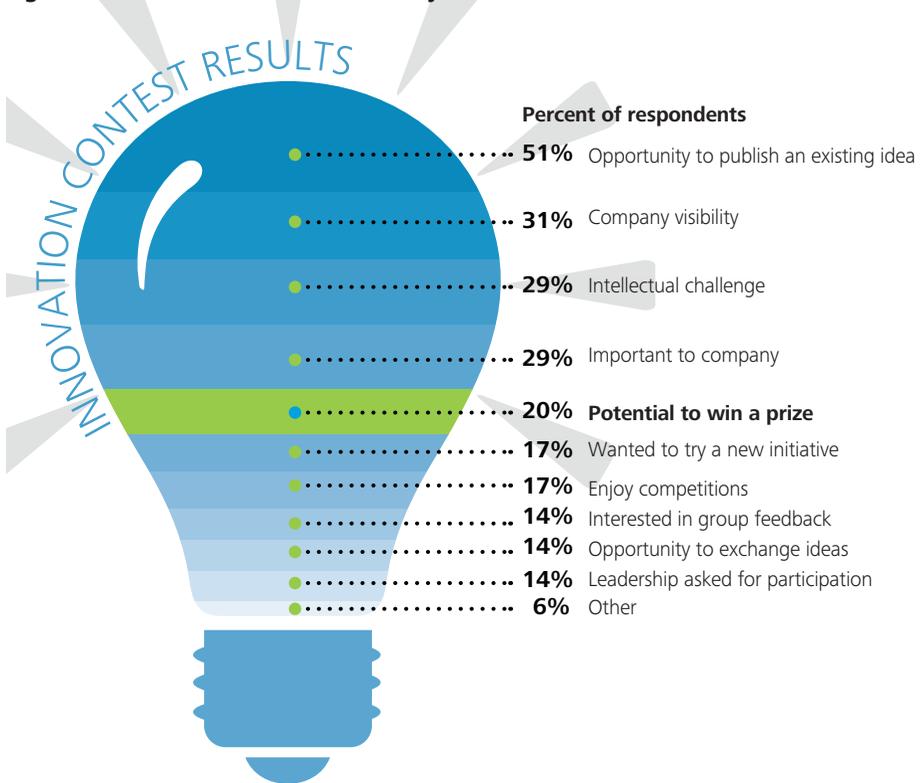
\*As used in this article, “Deloitte” means Deloitte Germany, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

## DELOITTE GERMANY INNOVATION CONTEST

In 2014, Deloitte’s German Innovation Group organized an innovation contest for its employees. The objective was to offer ideas for service offerings the firm could provide in order to meet the future needs of clients by the year 2020. The prizes included an all-expense-paid trip to a highly noted seminar, a 3D printer, and a smartwatch. The best ideas were determined by employee votes.

The final outcome resulted in 100 new ideas. Even more interesting, the social influences seemed evident in general participation, with over 1,000 employees (25 percent of Deloitte Germany’s total employees) engaging in the contest through comments or voting. Finally, several individuals combined ideas to form teams in pursuit of a better overall solution.

**Figure 1. Results from Deloitte Germany’s innovation contest (n = 35)**



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## INNOVATION CONTESTS AT GENERAL ELECTRIC

Even when a problem appears incredibly specific and niche, innovation contests are proven mechanisms to spark participation among the masses. To this effect, General Electric (GE) has leaned on innovation contests to crowdsource ideas for some

notable product inventions and improvements. When GE required a solution for something as specific as a lighter aircraft engine mounting bracket, it decided to forgo the more traditional route of tasking an internal engineering team and instead opted to open up the problem to the public in the form of a contest.<sup>24</sup> Precise rulesets for a contest are a necessity for success. For GE, this included the clear objective of designing a lighter bracket than what was then available. Finally, the best solution would earn the winner a cash prize of \$20,000.

The success of the contest is nearly undeniable.<sup>25</sup> First, over 700 solutions were submitted. Second, the winning solutions produced an engine bracket that is 80 percent lighter than the legacy bracket.<sup>26</sup> Third, the \$20,000 investment in the contest netted more innovative minds concentrating on the problem set than ever could be accomplished by simply directing the same cash outlay toward internal development. In addition, the peer recognition garnered for winning contests of such standing is often widely recognized within engineering communities and acts as a relevant incentive to participate.

### ***Guidelines to successful tournaments***

Simply establishing a tournament does not necessarily translate into a successful rollout and participation rate. The work of Cass Sunstein and Reid Hastie, two eminent behavioral economists, provides helpful tips for running impactful innovation contests:<sup>27</sup>

- A successful contest needs a clear and specific objective. The authors suggest that the clarity of the objective may outweigh the importance of participation numbers. Doing so will increase the likelihood that the most equipped and qualified participants self-select into the tournament.
- If the objective involves a fairly routine, less sophisticated problem set (similar to those that most knowledge workers need to address), evidence suggests that the competition should be restricted to relatively few competitors. However, if the problem is truly novel and particularly challenging, the competition will more than likely benefit from a larger number of qualified participants.
- Set up the prize pay-outs so that the winner reaps the most rewards, but avoid winner-takes-all scenarios. Branching beyond the single-winner system spreads the incentives across a larger group without much sacrifice.

## REWARDING INTRINSIC MOTIVATION

Innovation tournaments are great tools for focusing energy on a particular problem. But sometimes problems are a bit fuzzier. They may be poorly defined or even unknown. When someone solves this class of problem, it's important to recognize the good, innovative work accomplished. Research shows that particular types of reward systems have a track record of success in evoking innovative behavior. And to the surprise of no one, you can leave your wallet at home for this section.

### *Get your name in the paper*

People that go above and beyond the call of duty usually want to be recognized for it. One study shows that nonmonetary recognition in the form of achievement awards and public acknowledgements are instrumental in increasing employee energies that lead to enhanced performance and innovations.<sup>28</sup> At Intuit, creative innovations are recognized with a Scott Cook Innovation Award. Receiving this award is publicly celebrated with “a statue, recognition on the Innovation Wall of Fame, dinner with the executive team, and a travel award.”<sup>29</sup> Taking time to recognize special performance or innovations resonates with the concept of social proof. When individuals see others recognized for their achievements, it inherently motivates them to exhibit their own competencies and skill sets to their peers. In other words, it nurtures professional pride.

### *Take a risk—it's OK to fail*

Innovation needs to be encouraged, and failure needs to be recognized and forgiven as part of the process. Not every innovation results in the next big thing, so it's important that organizations properly frame risks. People cannot be afraid to fail. But in reality, most people are terrified to fail because they do not see the rewards system structured in a manner conducive to taking risks and innovating. Most perceive that contributing to future gains results in marginal to no reward, but an equally sized failure might end in termination or some other dire consequence.<sup>30</sup> Organizations that, even unintentionally, structure rewards in this manner are guilty of *narrow framing*. That is, every single investment is assessed in isolation rather than as part of a broader portfolio of investments.<sup>31</sup> Therefore, each “bad” investment in this environment is excessively punished, which acts as a deterrent to future risk taking, and likely innovation.

Instead, organizations should look to reward smart risk taking. Reframe risks as part of the cost of doing business. It's even OK to positively and publicly recognize the failed innovations. Intuit also celebrates failures with a “Greatest Failure Award”; when an innovation fails, it celebrates the creative thinking and learning

opportunity with a “failure party.”<sup>32</sup> Not only does this encourage individuals to think creatively, it also changes the social norms of risk taking. Taking a prudent risk is no longer a dangerous endeavor but, instead, something to celebrate, learn from, and publicly acknowledge.

### ***How and when to recognize innovation***

To summarize, recognition matters, and how organizations do it can greatly alter its impact. Make sure when you recognize innovation that it is done in a public manner. This can include a monthly innovation award that comes with extra perks (a special parking spot or free lunch, for example). Also, a physical representation of the success can be effective. These include plaques or pictures in public places. Timing is also of the utmost importance. Not only should recognition occur on a continual basis (either spontaneously or routinely), it is also good practice to reward the innovation at the idea stage. This way, if the innovation does fail, a hindsight bias will not leave a lingering belief that it was a bad idea in the first place. Alternatively, celebrate the failure!

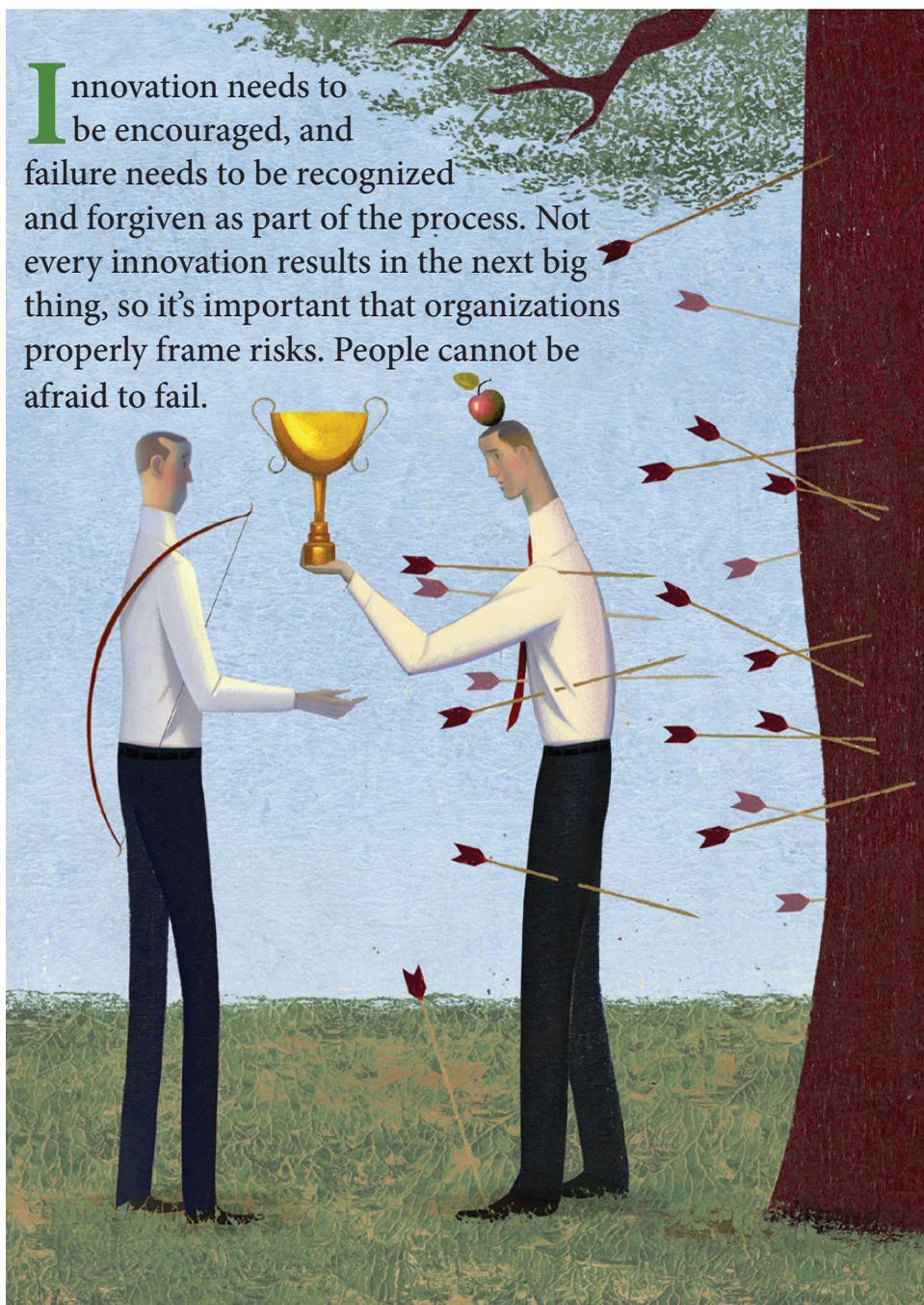
## **CITIZENSHIP AND YOUR ORGANIZATION**

**I**nnovation tournaments and public recognition are great motivators for isolated problems. But organizations are constantly juggling a series of unsolved, unknown issues, and their only hope is the grassroots innovators they employ. Often, businesses need their employees to seek out innovative opportunities while completing their routine responsibilities. These individuals should be equipped with the greatest insights as to where there is potential to innovate. Essentially, organizations look to develop vigilant innovators. To develop individuals who want to innovate, business leaders need to cultivate organizational citizenship behavior (OCB). OCB instills the desire in employees to go beyond prescribed duties on behalf of an organization in order to achieve new levels of efficiency and innovation.<sup>33</sup> When OCB exists, employees want to see and contribute to a company’s success.

### ***Civic virtue***

People express their civic virtue by actively and willingly participating in the governance of their teams or organizations.<sup>34</sup> Examples of civic virtue include attending meetings, expressing opinions about organizational decisions, and keeping up with relevant industry news. Those who demonstrate this type of civic virtue are actively involved and devoted to the health and well-being of the organization they represent. As one study illustrates, in the case of small businesses, civic virtue is especially important in influencing employees to innovate.<sup>35</sup> These insights are also

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relevant to knowledge workers who are members of small, autonomous teams that may work in environments similar to a small business. In short, when employees feel like active members of a community, they intrinsically look for more opportunities to innovate on behalf of their organization.

Employees exhibit civic virtue when they are committed to an organization. Exactly how one is committed to an organization is important. Evidence suggests that those committed to their organization because of substantial monetary investments (such as stock options) are less likely to partake in innovative behavior.<sup>36</sup>

Instead, the most influential commitments are those that evoke positive emotions and sentiments toward an organization, referred to as “affective commitments.” These individuals identify with an organization’s goals and want to contribute.

The answer to why affective commitments better foster OCB resides in social exchange theory. These are the cases when someone receives a benefit and feels the need to reciprocate the behavior.<sup>37</sup> The success of open source software is a testament to the power of reciprocity.<sup>38</sup> User communities are freely (and quickly) willing to assist members of the community with technical issues, theoretically because other members of the group helped them with a past issue. Tying back to OCB, one study that surveyed individuals across multiple professions found a significantly positive relationship between enhanced work-life benefits and OCB.<sup>39</sup> In short, nonmonetary benefits persuade employees to act as vigilant innovators.

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OCB instills the desire in employees to go beyond prescribed duties on behalf of an organization in order to achieve new levels of efficiency and innovation. When OCB exists, employees *want* to see and contribute to a company’s success.

### ***How to cultivate OCB***

Organizations that seek these seemingly 24/7 innovators need to promote civic virtue and convince their staff to commit to their role and organization. Obviously, this is no small feat and requires an organization to demonstrate reciprocity to its employees:

- **Promote reciprocity**—Evidence suggests that employees positively respond to greater work-life balance and benefits. The small price of greater personal time off or flexible work schedules may help foster long-term OCB. These should in turn provide people with more time to think through ideas and engage in creative processes with colleagues.
- **Articulate your organizational goals**—Employees need to buy into and have a strong sense of passion for the goals of the business. The first step is to broadly and clearly communicate the organization’s goals. The second step is to show how employees’ roles contribute to these goals. Leadership

should especially highlight their own innovation strategy and, in doing so, not be afraid to communicate past failures and successes.

- **Engage the individual**—Collaborative atmospheres contribute to civic virtue. Be sure to include employees in relevant meetings, and encourage them to express their opinions. Simple techniques such as ensuring the leader speaks last or providing safe outlets to express concerns will help employees feel comfortable expressing their point of view on an issue.<sup>40</sup> A higher level of engagement may also make employees more willing to participate in events such as the innovation challenges mentioned earlier.

### DEPRIVING AND DRIVING INNOVATIVE BEHAVIOR

Encouraging the type of creative thinking that leads to innovation is no easy task for an organization. These are intrinsically motivated behaviors, and traditional economic incentives do not always work. Thankfully, there are impactful alternatives, which start with individuals developing a shared sense of community. When you have a specific problem that requires an innovative mind, tournaments are a great tool to spur innovative thinking. More generally, if you are looking to instill a 24/7 type of innovative mindset in your employees, it's important to build a climate that promotes organizational citizenship. And when the time comes to reward innovations, make sure that these creative efforts are widely recognized and celebrated, even if they do fail from time to time. Table 1 provides a summary of the socially driven recommendations that motivate innovation.

It's important to note that these innovation drivers require long-standing commitment from the organization. These are not quick fixes but instead significant cultural shifts for many businesses. In turn, organizations that commit are often rewarded with motivated employees that look to direct their creative minds toward innovative behavior. Leadership at any level can begin to instill this mindset by consistently incorporating these three behavioral concepts into their leadership style:

1. Remember the importance of social proof. People take cues from their community. Rewarding and recognizing exceptional ideas is noticed. At any level of management, recognize the accomplishments of your people.
2. Don't be guilty of narrow framing. Let your people know it's OK to fail sometimes. Employees need to know that smart risks are not only acceptable but even rewarded. It's an uphill battle if people are afraid of the consequences of thinking creatively.

**Table 1. Tips to cultivate innovation**

Innovation driver	Behavioral influencer	Tactics for success
Innovation tournaments	<b>Social proof</b> plays a significant role in motivating participation. Individuals often want to signal professional competency to their peers.	<ul style="list-style-type: none"> <li>• Establish a clear objective.</li> <li>• Less complicated problems can have relatively fewer participants.</li> <li>• Structure prizes so that the winner takes most but not all.</li> </ul>
Recognition and awards	<p><b>Social proof</b> signals to peers that creative thinking and innovation are recognized. This helps to establish innovation as the social norm.</p> <p><b>Narrow framing</b> inhibits innovation and creativity. Reframe risks more broadly to encourage innovative behavior.</p>	<ul style="list-style-type: none"> <li>• Make awards public.</li> <li>• Award often (spontaneously or routinely).</li> <li>• Celebrate failures and successes.</li> </ul>
Civic virtue to cultivate OCB	<b>Reciprocity</b> encourages employees to “give back” to the organization. It helps connect the individual to his/her company.	<ul style="list-style-type: none"> <li>• Promote a greater work-life balance.</li> <li>• Articulate where the individual fits into organizational goals.</li> <li>• Provide a platform for employees to express their thoughts and concerns.</li> </ul>

Graphic: Deloitte University Press | DUPress.com

3. Keep in mind the “love your neighbor as yourself” mantra. The concept of reciprocity resonates with people. Treat your employees well, and they will look to reciprocate.

Across all three of the innovation approaches discussed, a consistent narrative percolates to the surface: An organization’s social norms will hinder or drive its innovative behavior. **DR**

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