

The negative consequences of loss-framed performance incentives

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Behavioral economists have proposed that loss-averse employees increase productivity when bonuses are “loss framed”—prepaid then clawed back if targets are unmet. We theoretically document that loss framing raises incentives for costly risk mitigation and for inefficient multitasking, potentially leading to large negative performance effects. We empirically document evidence of these concerns in a nationwide field experiment among 294 car dealers. Dealers randomized into loss-framed (but financially identical) contracts sold 5% fewer vehicles than control dealers, generating a revenue loss of \$45 million over 4 months. We discuss implications regarding the use of behavioral economics to motivate both employees and firms.

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[Link to current draft of the paper.](#)

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