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Child Care Centre – An Analysis of How Incentives Work on the Human Mind

Introduction

Understanding the concept of incentives, positive and negative, and how they impact the behaviour of people is a core aspect of economics. In fact, economists love to experiment with incentives and identify different measures that can motivate and demotivate a person from doing an action or from abstaining from it. The power of incentive is such that economists believe that with the right incentive, any person can be compelled to do any task. Incentives can cause tremendous action, inaction, or opposition merely based on the quantity and quality of the incentive. Every incentive has three aspects affecting it: economic, social and moral.

The case of the childcare centres in Israel will help one understand the impact of incentives and how a wrongly conceptualised one can severely affect the very purpose of the incentive.

A study of childcare centres in Israel provided statistics that the parents who came later to collect their children were on an average of eight per cent per week. This was an alarming statistic for the centres, and they had to spend extra money on holding back staff and paying them for overtime services. A few economists decided to try giving a negative incentive by imposing a nominal \$3 fine on parents coming late by more than 10 minutes. This was imposed in 20 childcare centres in Israel. The management and the economists believed that this would deter parents from coming late to collect their child. To their utter

dismay, within a couple of weeks of imposing the penalty, the number of parents who came late increased to 20 per week per centre, showing an astounding increase of 150 per cent. One major factor that one can identify that led to such a drastic increase is the low penalty. The penalty for the whole month totalled to \$60, which was about 16 per cent of the total monthly service fee per child. From the parent's perspective, for an additional 16 per cent of monthly fee, he/she could come at his/her own convenience and collect the child. Since such a penalty was being levied by the childcare centre, it became an additional responsibility for the centre to provide the best amenities for the child until the parent turned up. It further alleviated the moral conflict within the parent, when he/she turned up late, as now he/she could come late and be relieved of the moral binding to come on time with the penalty.

A similar scenario can be applied to students who were asked to pay a nominal fee for low attendance. Colleges perceived that by introducing a low penalty for every day of attendance below the stipulated percentage, students would come in more regularly. To their utter dismay, with the introduction of the penalty, the percentage of students who fell below the required minimum attendance increased significantly, as they were aware that by paying a nominal penalty, they could get away with a few more holidays in the year to enjoy.

On the contrary, in the absence of the penalty, the parents had at least a moral obligation to come on time and collect their children. In case a much severe punishment is to be imposed, like a \$100 a day, the number of erring parents would significantly decrease. However, that would increase the animosity between the parents and the childcare centre management, which could even lead parents to transferring their children to a far less punishing centre. If the childcare centres of the entire region imposed a high penalty for late parents, there is a strong possibility that one of the parents might open his/her own childcare centre and compete with the existing one.

However, the economists and the management of the childcare centres missed an important perspective. What if instead of punishing the late parents they provided an incentive for parents who consistently came on time? The incentive can be in two kinds, for the parents and for the children. A nominal monetary incentive for the parents might simply fail, as again they might want to sacrifice a few dollars a day to enjoy their game of tennis or strive more at work. Hence, if a cash incentive is to be provided, it has to be substantial, and parents should really compete for it; for instance, only the top 10 consistent parents are going to be awarded. This would foster competitive spirit amongst the parents. It also has to be kept in mind that such an incentive would affect the finances of the childcare centres and would be useless if the children coming to the centre are from the elite class of society.

The most effective measure to decrease the instances of parents coming in late would be involving the children in the incentive process. By motivating the children to push their parents to come on time and win the best parent award, the childcare centre might get its desired benefits, as children are highly competitive and could influence their parents to come on time to pick them up. The childcare centre should focus on the children of parents who turn up late regularly to the centre yet create an impression of equality in the minds of the other children, too.

Hence, it can be understood from the above discussion that an incentive can have several consequences on its desired participants. An incentive scheme is very successful when the people participate willingly in the process. On the other hand, it achieves a less than satisfactory outcome when the participants are forced into the process. A fine example of a forced incentive process is one when a company introduces a new scheme, which has to be promoted by its sales executives, even if everyone knows the promotion and the product are unsalable. For an incentive to be successful, it has to be achievable, realistic, and participative.

Works Cited

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