

PRINCIPLES OF BEHAVIORAL ECONOMICS

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Lecture 07

Hello everyone, welcome to the course on behavioral economics. Today, it's lecture 7, and we're going to talk about achievement and craftsmanship—the driving process in economic behavior. So first of all, we introduce Achievement Motivation. In this module, we will explore the concepts of achievement motivation and workmanship and their profound impacts on economic behavior. Achievement motivation is the drive to excel and succeed in relation to a set of standards. So whatever standards we set for ourselves, we need to keep ourselves motivated in order to achieve them. So it's a concept pioneered by David McClelland.

It refers to an individual's drive to excel and succeed. This motivation significantly influences economic behavior and decision-making processes, and that is why this is a concept we have taken up here in the introductory topics. So, according to McClelland's Need Theory, there are three primary needs: need for achievement (in short, called nAch), need for power (nPow), and need for affiliation (nAff). Developed through behavioral experiments in 1961—or rather published in 1961—McClelland's Need Theory identifies three core motivators. So, as mentioned above, they are achievement, power, and affiliation. These are the motivating factors.

These needs shape economic decisions and workplace dynamics. So, what does this theory tell us? First of all, there is the need for achievement, which is basically the strive for personal success. It is a good fit for entrepreneurial jobs. The second, need for power, basically gives the desire to hold authority over others.

This is a good fit for leadership roles. The third one is the need for affiliation, where individuals prefer collaborating instead of competing. This is a good fit for client or customer service jobs. Now, we will individually define each one of them, beginning with the need for achievement. It is defined as the drive to excel and succeed relative to standards of excellence.

The need for achievement, or nAch, is characterized by a strong drive to excel and succeed. Individuals high in nAch tend to seek challenging tasks, prefer personal responsibility, and desire regular feedback on their performance. For example, entrepreneurs like Elon Musk. High nAch individuals thrive on challenges. Elon Musk's ventures into SpaceX and Tesla reflect his relentless pursuit of ambitious goals. There are many other highly successful entrepreneurs whose examples can be taken.

If we go through their lives, we will find that they have always been driven by the need for achievement. That is how they have overcome a large number of challenges. Perseverance is one important characteristic that helps them pass through challenges and still pursue their goals. Next, we will talk about the need for power. It is defined as the desire to influence and lead others.

The need for power, or nPow, reflects an individual's desire to influence and lead others. Those high in nPow often seek leadership positions, enjoy competition, and are concerned with their reputation and influence over others. There are two types of need for power. First, personalized power—for example, authoritarian leaders—and then socialized power, which is more team-oriented, like transformational leaders. nPow drives leaders like Jeff Bezos, whose focus on influence and control shaped Amazon's dominance.

However, power can be personalized or socialized, as mentioned above. Now, talking about the need for affiliation, this is defined as the desire for harmonious relationships. The need for affiliation, or nAff, represents the desire for friendly relationships and social interactions. Individuals high in nAff prioritize cooperation over competition, seek harmony in relationships, and often excel in customer service and team-oriented environments.

For example, Google's collaborative culture. At Google, nAff drives their psychological safety culture. Psychological safety primarily refers to the absence of interpersonal fear. You basically feel comfortable in the company of other people. So in that kind of culture, teamwork and collaboration flourish.

They lead to fuel innovation or they fuel innovation. Now we apply or talk about applications of McClelland's Need Theory. First of all, we talk about its importance in the field of entrepreneurship. Globally, 68% of entrepreneurs are found to score very high on NH. The traits that basically characterize them are risk tolerance, persistence, innovation, and there could be several others.

We can take example of Sara Blakely, who is the founder of Spanx. She was basically started her journey by selling fax machines. But then during that period, she personally experienced discomfort of not having good quality lingerie because of that, you know, that kind of an experience motivated her to come up with an idea and the company was established like Spanx, which basically sells lingerie. Individuals with high nAch often display characteristics crucial for entrepreneurial success, such as risk-taking propensity and persistence.

For example, Steve Jobs, co-founder of Apple, exemplifies a high nAch entrepreneur. Talking about its implication in economic growth, McClelland's research suggested a correlation between a nation's overall achievement motivation and its economic growth. While this theory has faced criticism, it continues to influence development economics and policies aimed at fostering entrepreneurship. So, basically setting aside the criticism, it is understandable that if nAch influences entrepreneurial activities, then of course that is going to contribute to economic growth. And that's why all over the world, the leaders in different economies are emphasizing so much on the development of entrepreneurship, development of startups.

India is not an exception. We have also seen the application of nAch in the context of gender discrimination. So, it has been observed that women-led startups receive just 2.3% of venture capital funding or VC funding, despite men, women having equal amount of need for achievement. The barriers are stereotyping, threats, funding biases, basically stereotyping, which can also be called sort of statistical bias that influences

or that probably works against women's success as entrepreneurs. Nevertheless, we can talk about many entrepreneurs. One good example is Whitney Wolfe Herd's Bumble which is basically an online dating platform that succeeded despite systemic barriers proving nAch persist even in biased environments. nAch also contributes substantially in corporate innovation. The company 3M's 15% Time rule which allows the employees to pursue 15% of their work hour on projects of their choice has immensely contributed to innovations.

Similarly Google's 20% Time where Google allows its employees to spend 20% of their work hour on projects of their own choice where they can come up with new ideas, they can present innovative ideas, and they can work on them. So that kind of strategies have actually given birth to Gmail and AdSense. And there are many such examples. We call this entrepreneurship or corporate entrepreneurship.

3M and Google institutionalized nAch by giving employees autonomy, a strategy that birthed billion-dollar products. Of course, there is a certain dark side of nAch also. For example, Burnout. We have taken the example of Japanese karoshi. Karoshi literally means death due to overwork. So this is a major concern all over the world where a large number of people die every year from overwork.

Achievement may push someone to such an extent that it may lead to substantial deterioration of health and finally death. Similarly, people may also resort to unethical shortcuts. For example, a very recent scandal is that of Theranos, where its founder Elizabeth Holmes was found guilty of conducting several fraudulent activities and probably now she is serving an 11-year jail term. So, we also need to adopt certain mitigating approaches, such as ethical training and counseling individuals about maintaining work-life balance policies,

which may help in managing the dark sides of nAch. And despite its positive effects, because of this dark side, we need to be careful about how much achievement orientation an individual should have. This graph shows the deaths due to long working hours per 100,000 individuals in 2016. And as you can see here, the darker the color, the higher the number of deaths. For example, places with dark red actually have more than 22 individuals dying out of 100,000 in 2016 due to overwork.

So, even though not dark, India is also in the category of 15 to 21.9 individuals dying. And you can see mostly the Southeast Asian economies. And then some Northeast African, East European economies, a large number of Middle East countries—they're actually heavily characterized by overworking and deaths occurring due to that. Now, talking about nPow in political economy or in economics broadly, it helps in corporate lobbying. OpenSecrets, a premier national research institute examining the money that goes into US politics, reported that \$44.1 billion was spent in 2022 on US politics.

Through corporate lobbying, political entities try to influence the markets. There are examples of revolving doors between government and corporations, which implies that individuals holding legislative or regulatory positions in government, they also switch their positions by taking roles as employees and lobbyists in industries. As a result, there is a very strong connection between industry and government, which tries to influence policies that governments are supposed to implement in favor of certain industries, those capable of spending more and influencing government decisions more—which, in short, is called corporate lobbying.

For example, Meta's \$20 million annual lobbying budget to turn regulations in its favor reflects nPow's role in shaping policy. It's a double-edged sword for economic systems. Now, we talk about nAff in consumer behavior. So, we take examples of brand communities. For example, Harley-Davidson HOG, which stands for Harley Owners Group.

This is actually not a social network team, or rather, it can be called a sponsored community of a marketing team. So they receive a lot of facilities and promotional offers, and they also help spread awareness about Harley-Davidson's products. They're basically enthusiasts of Harley-Davidson's products. The riders, that's why, are not simply customers—they are tribes. Similarly, social commerce now accounts for 47% of Gen Z's purchases via TikTok or Instagram. nAff thus drives today's \$700 billion social commerce market.

So the key takeaways are, first of all, nAch drives innovation, but it requires certain ethical checks. nPow shapes corporate political dynamics. Of course, ethical checks are also required there. nAff fuels brand loyalty and social commerce. In summary, McClelland's needs shape economies, from startups to lobbying.

Now we talk about how achievement motivation can be measured. There are three alternative procedures. We begin with the Thematic Apperception Test, or in short, TAT. Here, ambiguous scenes are described to learn more about a person's emotions, motivations, and personality. The second one is self-reports, where basically questionnaires are given.

The individuals are supposed to fill them up. And the third one is behavioral matrix. Measurements relating to customer behavior and their expected engagements are basically considered in behavioral metrics. McClelland's used TAT to decode hidden motives. Today's startup investors use pitch competitions to gauge founders' nAch..

It's crucial to consider cultural context when measuring these motivations as they may manifest differently across different cultures. The TAT is a projective technique, meaning it relies on individuals projecting their own thoughts, feelings and experiences onto ambiguous stimuli. So how does it work? Participants are basically presented with a series of cards featuring black and white images of people in various situations.

Then they are asked to tell a story about each card. So basically what do you perceive from the card? What do you see in the card or if you can come up with a narrative from whatever

you see in the cards. including what is happening, what the characteristics, what the characters are thinking and feeling and what the outcome might be as perceived by the individuals or the subjects. That's why TAT is also known as picture interpretation technique.

Now, how is TAT interpreted? Psychologists analyze the stories for recurring themes, patterns, and content to understand the individual's personality and psychological processes. Next, we talk about another theoretical approach: enjoyment by anticipation. This was given by George Shackle. He developed a novel theory in the 1940s on the idea that human imagination enables us to engage in enjoyment by anticipation.

This explains why people stake money on lotteries and bets despite finding it hard to imagine that they will win. For example, in lotteries, most often the chances of winning are very small. Nevertheless, why do we put money or stake some amount in lotteries? Because once we have made an investment or purchase in gambling, or once we commit ourselves to gambling, we can enjoy the excitement of thinking about what we would be able to do if we did win.

So, basically, the anticipation gives us a lot of pleasure. Anticipated pleasures play an important role in behavioral economics as well. Neoclassical analysis generally underestimates the demand for lotteries because it focuses on the probability-weighted expected utility of the gamble being successful and ignores enjoyment by anticipation. Ideally, what it says is that I purchase, say, a lottery ticket which, if I win, is going to give me 100,000 rupees.

But if my chance of winning is very small, like 0.01, then the probability can be even smaller than that—0.001. In that case, the winning amount is very small. It is possible that the winning amount is actually smaller than the amount I pay to purchase the lottery ticket. So in any case, a very small probability or a relatively higher price for the lottery ticket in relation to the probability of winning or the expected value from the lottery may discourage me from purchasing the lottery. Nevertheless, we often purchase lotteries, and people do buy lottery tickets.

That is because there is certain enjoyment out of anticipation. If Shackle's analysis is correct, consumers will have a motivation for making commitments to consumption activities such as vacations, dates, weddings, concerts, and sporting events, well in advance of the time necessary to ensure the event can be organized. So there are certain things we study in intertemporal choice preferences, and all these things actually matter a lot. This

idea has far-reaching implications when we visit brick-and-mortar retail sites or e-commerce platforms,

or when a tradesperson visits us to discuss our home improvement ideas. Because then we get streams of novel stimuli that can serve as food for thought, even without making any commitment to spend money. So these days, since we have markets or shops just on our mobile devices, in our hands, many times we just browse e-commerce sites looking for products. Many times we don't actually buy, but we see things. We also have the option of putting things on our wish list. A wish list typically implies that I wish to have these things.

So having them in wish list actually implies that I wish to have them in sometime in future maybe. And that gives me a lot of enjoyment. So even if I'm not making purchases, but I'm having some ideas that getting some enjoyment, getting some pleasure from the idea or from the fact that I'm going through things, I'm liking them, I'm enjoying them. And I'm probably anticipating that in some time I probably will be able to own some of them.

It's more like the way daydreaming give us novel stimuli. Further, as noted by Tibor Scitovsky, modern shopping environments in malls offer us opportunities to eat, socialize and enjoy a climate-controlled environment full of visual and other stimuli. So it basically goes even further, simply enjoyment out of anticipation, but it also gives us stimuli from different other sources. We enjoy socialization process or socializing process.

We enjoy the climate control environment and things like that. Hawtrey noted that inability to fulfil basic needs combined with very limited resources, make life for the poor a series of gambles in which hopes are focused on keeping distress at bay rather than on new experiential opportunities. So for the poor people, what basically gives them stimuli? Hawtrey noticed that we also get motivation out of distress and that is specifically true for probably the poor people.

For them, keeping their life moving, keeping their life moving along a smooth line in itself is a challenge. And that basically gives them certain motivation to keep going. For them, the challenge is to keep stress at bay. Even though they may not be enjoying those challenges on a day-to-day basis, nevertheless, those challenges keep them motivated, keep them motivated to continue working.

Scitovsky argued that excess comfort in modern affluent societies is the reason for the pursuit of high-excitement activities. So basically, we look for experiential opportunities which poor people do not need because their lives are already full of so many challenges.

But those who do not face any more challenges in life basically look for experiential opportunities, which also include high-excitement activities. Some events put life at risk, like mountaineering, and there are other adventures which are somewhat risky. Several theme park rides or adventure sports give consumers a sense of living on the edge, though they also follow safety protocols, as a result of which you enjoy the thrill,

but at the same time, you know that there are sufficient safety gears and your life will not be jeopardized. Further, Scitovsky emphasized the relationship between the amount of novelty we face and how comfortable we feel. It takes the form of an inverted U-shaped curve. Because at some point, a rise in the degree of novelty or intensity in incoming stimuli produces a maximum level of comfort, and further increases may eventually reduce our comfort levels so much that we want to be elsewhere.

So this is the shape of the curve that Scitovsky prescribes. We are measuring comfort on the vertical axis and stimuli on the horizontal axis. So, simply put, he says that with an initial increase in stimuli, our comfort may increase in the sense that we may feel good. But then, after a certain point, the comfort reaches its maximum, and further stimuli actually make us uncomfortable, as a result of which we may quit that thing. It can be an adventurous sport.

It can be anything in which we are involved. So, we would like to be somewhere else instead of being in this process where we are getting constant stimuli. Next, we talk about another theory on motivation, which is 'The Instinct of Workmanship' by Thorstein Veblen. I have already talked about Veblen in previous lectures. An understanding of human behavior is the starting point for all economic reasoning.

In Veblen's view, human nature comprises irreducible innate instincts and learned habits. So, he basically emphasizes instincts. In general, Veblen identified instincts as specific innate tendencies of the mind that have evolved in the process of species' adaptation to the environment. In particular, Veblen defined the instinct of workmanship as the main determinant of technological progress in that it 'occupies the interest with practical expedients, ways and means, devices and contrivances of efficiency and economy, proficiency, creative work, and technological mastery of facts'.

He also observed that such an instinct would entail an appreciation of effective work, distaste for future effort, and a drive for technological improvement. So, besides having the importance of instinct in contributing to technological mastery of facts and creative works, he also emphasized that instinct would entail an appreciation of effective work,

distaste for future effort, and a drive for technological improvement. So, these are basically the main themes of instinctive workmanship as theorized by Thorstein Veblen.

The key elements are pride in workmanship, efficiency and effectiveness in production, and aversion to waste and futility. In a nutshell, if the existing institutional circumstances are not too obstructive, the instinctive nature of humans will express itself in ways that give rise to new technological insights. Objectives that people adopt to pursue are, in Veblen's view, a matter of instinct. This sharply contrasts with 'Pecuniary Emulation,' which refers to an individual's economic effort to surpass his peers in socio-economic status. So, previously we have talked about Veblen's concept of conspicuous consumption, which ideally entails this

concept of pecuniary emulation. Basically, you try to purchase things of status in order to compete with your peers. Now, Veblen's workmanship instinct explains Japan's monozukuri, where artisans prioritize mastery over profit. Monozukuri, actually in Japanese, if translated, means to make things or manufacturing. But it is much more than just making things or manufacturing.

It is sort of, you know, it also entails Japanese work ethics. It's the drive for perfection in the Japanese community or among Japanese people. So this is how the workmanship instinct can be observed in Japan's monozukuri. The instinct of workmanship influences product quality, innovation and consumer preferences. We see this in the growing markets for artisanal and handmade goods creating a tension with mass production methods. So, though mass production methods are cheaper and they are produced in larger quantities easily made available in the market and that's why they are preferred,

but then those who can afford, those who have a taste for artisanal products, handmade goods, then basically in order to promote them, We are now gradually seeing a growing demand or growing market for these commodities as well. There is also luxury craftsmanship, for example, Hermes handbags. So it takes 18 to 24 hours per bag and it sells for \$10,000 or more. Artisanal markets are now worth \$1.2 trillion.

Basically, this shows that the global artisan economy as per UNESCO is a growing market. The instinct of workmanship relates closely to intrinsic motivation, the internal satisfaction derived from work itself. This contrast with extrinsic motivation driven by external rewards. Balancing these motivations is crucial for job performance and satisfaction. Previously also talked about intrinsic and extrinsic motivation.

So this again comes back. Intrinsic is the joy of creation. Extrinsic refers to outside rewards, bonuses, promotions, etc. Intrinsic motivation boosts creativity by 34%. According to a study by Amabile in 1996. Now, talking about the impact of productivity and innovation, we can take the example of Patagonia's Worn Wear—repair over replacement.

Basically, Patagonia is a company that encourages individuals to use or repair their worn-out garments. Instead of purchasing new products, they encourage customers to go for repairs, whether small or large things. They provide customized services on the spot in their retail stores, or sometimes products are taken to their service centers. The products are somewhat expensive. They are built with very high-quality materials so that they can last for a long period of time.

And even when small repairs are necessary, they can also be done. So this approach basically encourages individuals to associate themselves with Patagonia. They also encourage individuals to return their used garments, which are then sold to others after some processing. So the outcome is that 30% of revenue comes from reused gear. Craft-driven firms patent twice as much. This has been observed by an MIT study.

Patagonia's repair program isn't just eco-friendly. It's a \$100 million plus revenue stream driven by craftsmanship values. We can also talk about Rolex craftsmanship. They take one year to make one Rolex. as a result of which there is 80% gross margin. Consumer perceive these products as heirloom.

So, heirlooms are something which we value extremely that has been traditionally obtained from our ancestors. So, that kind of a very high value is associated with Rolex products. Rolex one-year production cycle creates artificial scarcities. Basically, it will not be very easily available in the market. It also blends workmanship with Veblen's conspicuous consumption.

Now talking about craftsmanship in the modern economy, we look at craftsmanship as the resurgence of artisanal production. Seen in crafts, breweries and bespoke fashion, it demonstrates the enduring appeal of the workmanship instinct. This maker movement has significant economic impact but faces challenges in scaling and competing with mass production. Maker movement ideally refers to the current movement which emphasizes on not only procuring things that are made by artisans but also doing things on your own. So for example DIY concept, then trying to solve problems on your own at any point of time, the problems that can be solved by an individual.

So these encouragements can broadly be called macro movements. So this emphasis on doing it on your own, doing it yourself is basically also giving encouragement to the communities and individuals to go for things which are made by those who are handmade, those which are crafted by individuals and not machine-made. So, the future trend is that if we go for technology-enabled craftsmanship, then possibly we can streamline the processes better, and that may further lead to the flourishing of the market. With this, I conclude this lecture.

These are the references that I used for this lecture. Thank you.