Roundtable and public lecture with Nobel Prize winner Prof. Daniel Kahneman at the University of Zurich

On April 16, the UBS Center hosted a full day event dedicated to knowledge transfer between academia, industry and the interested members of the general public.

The day started with a roundtable on the topic of “incentives, corporate culture and executive compensation.” More than 25 chairmen, CEOs, and members of the boards of directors of large Swiss-based companies met with renowned academic specialists to discuss the topic.

Among the speakers was Professor Daniel Kahneman, who kicked-off the discussion by giving his views on the mechanics of judgment and decision making in the corporate world. He was followed by Professor Ernst Fehr, who elaborated further on the academic viewpoint on the topic.

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Fehr explained that empirical studies show that corporate culture – although often neglected – is one of the most important factors for success. He explained that several tools that can be used to engineer a firm’s culture have been scientifically examined: belief management, peer pressure and sanctions, financial incentives and priming.

The power of peer groups

The most powerful tools are belief management and peer sanctions. Making people believe that an overwhelming proportion of their colleagues comply with the company’s requirements, coupled with leadership by example, triggers voluntary compliance among 50% to 70% of staff. If companies want to reach the remaining employees who don’t comply voluntarily, they need to introduce peer sanctions. Experiments showed that the use of such sanctions increased compliance to nearly 100%.

Peer groups seem to be an important factor not only when it comes to sanctions but also when shaping financial incentives. These incentives can influence the caliber of employees a firm can attract and keep, how existing employees behave and also to what degree employees comply with the firm’s norms. Fehr said that financial incentives should be objective, simple to understand and based on peer-group adjusted performance. He generally sees a need to radically simplify compensation measurements. Peer-group adjusted performance would smooth out fluctuations and neutralize external effects. He pointed out that, contrary to usual practice, organizations should ensure that peer groups are relatively large and include companies from other sectors.

New regulations should be balanced

The third speaker, Professor Axel Weber, UBS Chairman, provided a private-sector perspective on the matter, agreeing with the academic speakers that fundamental change is needed, not only for the sake of sustainable financial success, but also for maintaining a critical level of public and political support. He also made clear that while most companies have already started to overhaul their policies and approaches, it is still work in progress. The lively plenary discussion involving all participants confirmed these views and also highlighted that many chairmen see a very real risk that some of the political and regulatory initiatives in this area might lead to an overshooting, which could seriously endanger the entrepreneurial freedom and profitability and harm Switzerland’s position as a business hub for large companies.
Organizations are slow thinkers

In the late afternoon, Professor Daniel Kahneman gave an overview of his book “Thinking, Fast and Slow.” His lecture was open to the public. Kahneman distinguishes between fast thinking and slow thinking. Slow thinking could be described as conscious, informed thinking, fast thinking as unconscious and instinct. Both slow and fast thinking are part of human nature, as are risk aversion and optimism. According to Kahneman, people respond more strongly to losses than to gains. Risk or loss aversion leads people to resist change and to try to preserve the status quo. Being too optimistic doesn’t help either as optimists tend to underestimate risks. Kahneman compares an organization with a slow thinker and sees a number of advantages in this. In his view, organizations are better able to avoid bias and unjustified optimism, and their leaders are less susceptible to loss aversion as they are taking decisions on behalf of others.

Over 1500 people attended Kahneman’s lecture. According to the university, this has been the public lecture with the most attendees for many years if not ever.