— Spring, 2019 —

THE IRF QUARTERLY ACADEMIC REVIEW

FOR INCENTIVE, REWARD & RECOGNITION PROFESSIONALS

Volume 2, Number 1

IMPROVING PRACTICE & APPLICATION

CONTENTS

IRF® Incentive Research Foundation

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FROM THE EDITOR, ALLAN SCHWEYER

As we enter the second year of the *IRF Academic Quarterly Review*, we remain focused on assisting incentive, reward and recognition professionals by sharing the best and most relevant academic research in the field. Only a decade ago, filling a practitioner journal like the *Quarterly*, would have proved challenging. Back then, a handful of researchers produced a study or two every few years. In this first issue for 2019 we examine the results of field and lab experiments reported in six papers, each from 2018 or 2019, including contributions from 13 researchers across 11 universities in four countries!

Interest in the use of rewards and incentives has expanded; academic study in our field has grown tremendously in recent years, which, in itself is an endorsement of the key role incentives and rewards continue to play in business – motivating employees and other stakeholders to greater engagement, higher productivity and better outcomes.

A good deal of past research, including that covered in past issues of the *Quarterly*, has addressed the cash vs. non-cash reward debate. The results clearly point to the superiority of non-cash rewards in many circumstances. It is one thing to know, however, that non-cash rewards work, and another to understand when and where they work optimally. The research does not suggest after all, that non-cash rewards and incentives are *always* better than cash, under any circumstances. Therefore, the more we can discover about the conditions in which non-cash rewards are most effective, the better for reward program designers.

In this issue, cash vs. non-cash incentives are studied to measure the benefits of hedonic vs. utilitarian rewards; reward framing; the role of extrinsic rewards in driving intrinsic motivation; the conditions in which incentives encourage creativity and the effect of goal/reward choice and achievability on sales performance.

Increasingly, academic researchers are studying the role and impact of incentives and rewards on the intangible characteristics of organizations. Variables such as the strength of internal and external relationships, inclusion, trust, development, autonomy and meaning. As the research covered in this and past issues of the *Quarterly* attest, they are finding that incentives, rewards and recognition play a pivotal role in generating and sustaining these characteristics – those that create a "21st century talent culture," and which generate sustainable competitive advantage

PRE-RELEASE RESEARCH

The Interactive Effect of Reward Type and Employee-Firm Identity on Instrumental-Symbolic Valuation of Rewards and Willingness to Exert Effort

Citation: Kelly, K., Liu, W. and Presslee, A. (2019). Working Paper

Availability: This article is available on request from Allan Schweyer at: allans@tmlu.org

Introduction: Though the evidence in favor of using non-cash versus cash rewards to motivate continues to mount, a significant body of research finds that the superiority of non-cash rewards is anything but universal. In other words, non-cash, tangible rewards will often drive better results than cash, but not always. This leaves reward program designers with a need to know when and when not to use non-cash rewards and, when used, how to optimize their impact.

Modern workforce management emphasizes an employee-first approach to business. Employees should no longer be "managed" through command and control but "inspired" according to the universal drivers of intrinsic motivation – autonomy, belonging, mastery and purpose. Firms employing this approach are said to benefit from higher employee engagement and greater commitment. Gradually, they build a "talent culture" in which employees exhibit corporate citizenship behaviors, such as greater collaboration, inclusion, knowledge-sharing and trust.

The IRF has argued that non-cash incentives and rewards are an essential ingredient in modern workforce management; that they should be used to reinforce intrinsic motivators, and to recognize employee behaviors that build and sustain a talent culture. Moreover, we believe that gifts strengthen the most critical factors for business success today – trust and relationships – while cash rewards may reinforce the traditional management constructs of hierarchy and status.

This study was selected and sponsored by the IRF, among many contenders, because the researchers explore critical questions related to the role of extrinsic rewards in the modern workplace. They investigate whether the strength of employees' identification (i.e., feelings of belongingness) with their firm – a key and universal component of engagement and commitment – matters in their response to cash and non-cash rewards. Moreover, they test the psychology behind gift giving itself, namely that people, including employees, value gifts not solely for their material value, but for their relationship value.

A small but well-publicized body of work argues that extrinsic rewards defeat (i.e., "crowd-out") intrinsic motivation. The results of the researchers' two experiments in this study support the counter-argument that some extrinsic rewards boost intrinsic motivation. Specifically, they provide evidence that employees place greater relationship value on non-cash tangible rewards when they identify more strongly with their firm, whereas they do not do so with cash rewards. The research also provides evidence suggesting that employees who place more relationship value on a reward are more willing to exert effort towards goal achievement.

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The Experiments

1. 300 participants were asked to imagine working for one of two very different employers: one employer exhibited many of the features of a talent culture described above – compassion, good corporate citizenship, and a positive work environment. The other was the complete opposite. The subjects were also asked to imagine they were to receive either a cash or equivalent value non-cash, hedonic reward if they met a difficult performance goal as an employee of one of these firms. Participants were asked to rate the relationship value they placed on the tangible and cash rewards.

2. 152 participants were asked to imagine a high relationship value non-cash reward or a low-relationship value non-cash reward in return for achieving a difficult goal for an employer. Unlike in the first experiment, a description of the employer was not provided, rather, participants read a description of the reward, a $150 voucher for a high-end restaurant. One described the reward as generic; i.e., everyone gets the same thing (low relationship value). The other described it as a tailored and thoughtfully selected gift, intended to convey the firm's sincere appreciation (high relationship value). Participants were asked to estimate how hard they would work toward the performance goal for either reward.

Results

- The researchers find support for their hypothesis that: "Stronger employee-firm identity increases the relative emphasis on symbolic [i.e., relationship] value (versus instrumental value) of tangible rewards, but has a weaker effect or no effect on the relative emphasis on the symbolic [relationship] value (versus instrumental) of cash rewards." The experiments confirmed that where non-cash rewards were imagined, a greater relationship value was assumed only among participants in the benevolent employer category. In other words, compassionate, caring employers earn a level of "good intentions trust" even when they use performance contingent non-cash rewards. There was no effect for the cash reward group.
- By increasing the relationship value of the reward, the overall value of the reward increases, which should lead to greater effort in pursuit of the reward. The researchers second hypothesis was: "A higher relative emphasis on the symbolic [relationship] value (versus instrumental value) of a performance-contingent reward increases employee effort." This hypothesis was also confirmed. The researchers found that when participants imagine receiving the tailored and thoughtful reward it increases their willingness to exert effort compared to those who anticipated the generic reward.

Actionable Take-Aways

- Employees do not place high relationship value on performance-contingent cash rewards, whether they identify strongly with their employer or not. Neither do they perceive good intent from the offer of performance-contingent non-cash rewards if they do not identify strongly with their firm. However, where an employee does identify strongly with their employer – i.e., feels a strong sense of belonging – the impact of non-cash rewards is magnified because the reward is assumed to be offered in a thoughtful, appreciative and caring manner. This translates into extra effort.
- Reward program designers should integrate their work with other elements of workforce management – engagement initiatives, for example – to foster a talent culture. This research suggests that where a talent culture exists, employees are more likely to assume that tangible cash rewards convey deep appreciation. This, in turn, accelerates a virtuous cycle, reinforcing the culture.

Question & Answer with the Authors

Q1. You found that when employers enjoy good relationships with their employees, performance-contingent rewards may not be perceived as manipulative, nor crowd out intrinsic motivation. Employees may, in fact, perceive the rewards as thoughtful and caring. Can you comment further?

It is the manner in which performance-continent rewards are given that affects intrinsic motivation. Our research is an example of a setting where performance-contingent rewards are not harmful to intrinsic motivation.

Empirical evidence is mixed on the claim that incentives can reduce an employee's intrinsic motivation. For example, meta analyses find performance contingent rewards do not erode intrinsic motivation, and may in fact boost the link between intrinsic motivation and performance (Byron and Khazanchi 2012; Cerasoli et al. 2014). One of my favorite quotes on the topic is from Shaw and Gupta (2015): "In short, the corrosive effects of financial incentives on intrinsic motivation in the workplace are mythical. The evidence conclusively demonstrates their beneficial effects instead."

Hossain and Li (2014) offer an interesting explanation for mixed evidence found in the literature: if you try to use performance contingent pay to reward someone to do something they view as a prosocial activity (e.g., helping a friend move, picking up a child from day care, etc.), then performance-contingent pay leads to lower effort and performance.

Personally, I think authors like Dan Pink, Edward Deci, and Richard Ryan, while clearly brilliant, may have over concluded about the negative effects of performance contingent financial rewards. The empirical data shows pretty convincingly that performance contingent rewards have a positive effect on employee effort and performance, and there is no real business world evidence (that I know of) that show performance contingent rewards leads to worse performance than had no reward opportunity been given.

Spot rewards can still work. However, it's hard to use those rewards in a world where employees are suffering from a lack of motivation problem. Managers should be careful not to reinforce bad performance or tendencies. So, it's a chicken/egg issue. It's difficult to deliver spot rewards if an employee is not performing; it's difficult to get an employee to perform if you haven't delivered a spot reward.

Q2. How confident are you that your findings would hold in field experiments with employees?

We struggle to generalize theory from the lab to the field. In the 'John List' spirit, I believe the best place to study incentive effects is with real world companies. Regarding our paper, we make the case that we can generalize theory to practice such that (on average) increasing employee-firm identity increases the symbolic valuation of performance contingent tangible rewards more so than performance contingent cash rewards. However, we cannot speak to effect size because of our contrived experimental setting. This effect size could be large in practice (might explain why tangible rewards appear quite effective in high identity tech firms) or small in practice. Our paper does not allow us to conclude.

More Questions?

Please forward any additional questions you may have to the authors, Professors Mitchell, Presslee, Schulz and Webb are in the IRF Academic Network.

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MICRO REVIEW: The Impact of Intrinsic and Extrinsic Motivators on Employee Engagement in Information Organizations

Citation: Singh, R. (2016), St. John's University, New York. The Impact of Intrinsic and Extrinsic Motivators on Employee Engagement in Information Organizations. *J. of Education for Library and Information Science, Vol. 57, No. 2*

Availability: This article is available on request from Allan Schweyer at: allans@tmlu.org

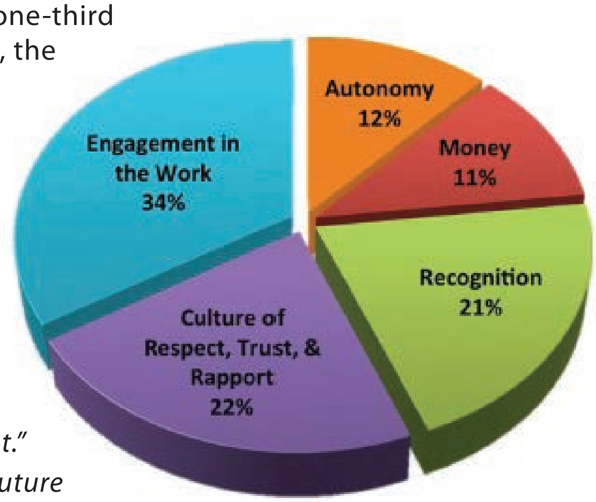
Introduction: This brief, interesting paper focuses on library and information sciences professions, but the author's conclusions can be safely generalized to the knowledge/creative workforce in general. Here, masters of library science students across the US were provided materials about workplace motivation. From the Hawthorne Experiments in the 30's to Maslow's Hierarchy of Needs, Theory X and Y and Dan Pink's take on Self Determination Theory, students got a crash course in motivation theory before engaging in discussions about what motivates them.

Summary

While the methodology ca not be labelled scientific, it is interesting, nonetheless, to consider what a large cross-section of graduate students thinks about the ways workers are motivated today; after all, they represent the next generation of workers entering organizations. In brief, the subjects were put off by the prevailing "carrot & stick" approach to motivation. They care about money, but only to the point that it provides for the lifestyle they desire.

Findings

- Asked to identify their primary motivator, more than one-third point to meaningful, challenging work (34%). In short, the quality of their work, including its bigger purpose, is the main motivational driver and cause of employee engagement.
- One-fifth identified respect and trust, (i.e., workplace culture) as most important.
- About one-fifth said they were most motivated by receiving recognition for their work



The author concludes that: *"The current model of carrots and sticks, that is, extrinsic motivators, is not appropriate for our current service-oriented and knowledge-based work environment."* and *"… leaders and managers should recognize that the future generation of information professionals appears to be driven by intrinsic motivators. Furthermore, information leaders and managers should understand that intrinsic factors play a bigger role in employee motivation and put effort into creating a culture of respect, recognition, trust, and autonomy when tailoring their management strategies to tap into the emotions of their coworkers."*

Take-Away

This research did not address the impact of cash or non-cash rewards (only cash as salary). While today's creative workers are often intrinsically-motivated, this and a large volume of other research attests, they value extrinsic rewards too, such as recognition. This research provides more evidence for the wisdom of taking a holistic and broad view of rewards and incentives. Competitive pay, challenging, interesting and meaningful work, autonomy & accountability, a talent-centric culture and recognition – including that reinforced with tangible rewards – are all essential components (i.e., rewards) of motivating work.

RE-RELEASE RESEARCH

When Do Tangible Rewards Motivate Greater Effort Than Cash Rewards? An Analysis of Three Commonly Cited Differences

Citation: Jongwoon (Willie) Choi and Adam Presslee (December 2018). Working Paper

Availability: This article is available on request from Allan Schweyer: allans@tmlu.org

Introduction: This working paper from two of the most respected researchers in the field of workplace incentives is among the first to attempt to isolate conditions in which non-cash rewards work better than cash. It is also the latest to investigate whether reward recipients perceive cash and non-cash rewards differently, and if so, whether that perception drives performance improvements. The researchers use laboratory experiments to test three arguments (variables) that are frequently used in support of the use of non-cash rewards. First, whether reward recipients mentally account for cash rewards as part of their fixed salary, and non-cash rewards as something more separate. Second, whether they classify cash rewards as money to be spent on utilitarian goods and services, and certain non-cash rewards as "hedonic," to be used for fun and exciting things. And third, whether cash creates an expectation of further reward that non-cash rewards don't. Most importantly, they investigate whether these conditions lead to greater goal commitment, effort and attainment.

Summary

If the three conditions above hold true, then according to mental accounting theory, reward recipients should value non-cash rewards more than cash and be willing to work harder to achieve goals associated with earning them. This forms the researchers' hypothesis. To test it, they conducted four experiments with more than 320 participants in total. Each was paid to perform simple, computer-based tasks over a series of twelve two-minute rounds ($20 per round). Participants were given the chance to earn an additional cash or non-cash reward (in a randomly-selected round) if they achieved a difficult but attainable goal. The researchers carefully manipulated the conditions for each of two groups across the four experiments to test the three arguments described above.

In the initial experiment, cash reward group participants were told that for each round in which they met or exceeded their goal, they would get $30 instead of $20, this created an "expected" condition. By contrast, participants in the non-cash group were told they could earn a $10 AMC movie gift card (in addition to the $20) only after the eighth round. This was awarded in each remaining round (4) on condition they met or exceeded the same performance goal as in the cash group. This created a "windfall" or unexpected condition.

Note that cash-motivated participants were not told they would receive "$20 + $10." The researchers deliberately framed the reward as part of fixed pay to better approximate the way cash rewards are often delivered in organizations (i.e., as a lump sum). Finally, cash reward participants were asked to imagine spending their money (base and reward) on things like groceries and utility bills. Non-cash reward participants were reminded of the hedonic nature of their reward (i.e., movies, concession stand items).

With slight variations, the experiment was repeated three more times; once for each of the three variables to test their individual influence on performance. No subject participated in more than one of the four experiments.

Results

- The non-cash reward group outperformed the cash reward group. That is, goal attainment was significantly greater in the non-cash group than in the cash group. The researchers conclude that "… *goal-based tangible [i.e., non-cash] rewards will lead to greater effort than goal-based cash rewards.*"
- Participants perceived cash rewards ($10 bonuses for goal attainment) as significantly less distinguishable from their standard payment ($20 per round) than the $10 AMC gift cards. The researchers found that the more distinguishable the reward from the standard payment, the greater the goal attainment.
- Non-cash reward participants were significantly more committed to attaining their reward goals than those in the cash group. The researchers found that the greater the goal commitment, the greater the goal attainment.
- In the second experiment, the cash reward was presented (framed) to half the participants as a lump sum, and to the other half as a separate $10 reward. No impact on goal commitment nor attainment was observed.
- In the third experiment, one group was motivated with a utilitarian gift card reward (a $10 grocery card). The other was offered the hedonic $10 AMC movie card. Again, no impact on goal commitment nor attainment was observed. However, participants were significantly more likely to rate the utilitarian gift card less distinguishable from their cash payment than the hedonic gift card.
- In the final experiment, one group was offered the AMC gift card for goal attainment in each of the 12 rounds (the expected group), the other was offered the same gift card only after round 8 (the unexpected group). While there was no impact on goal commitment, nor greater perceived difference between the reward and the fixed $20 payment in either group, goal attainment was significantly better in the unexpected group.
- From the experiments, it remains unclear whether: 1): A program designed to frame rewards as separate from fixed pay will drive better results. 2): Whether a hedonic non-cash reward will work any better than a utilitarian non-cash reward in generating greater goal commitment or achievement. 3): Or, whether rewards that are unexpected will result in significantly greater goal attainment than those that are expected.
- It is clear, however, that a program designed to include all three *is likely* to drive greater goal commitment, effort and goal attainment than an equivalent cash reward program

Actionable Take-Aways

- Overall, non-cash rewards proved more motivating than cash rewards in these experiments. They drove greater goal commitment, greater effort, and greater performance. The researchers conclude: *"The results of our main experiment support proponents' claims about the motivational benefits of tangible rewards, and thus suggest compensation system designers may want to consider the use of performance-contingent tangible rewards to increase employee motivation."*
- Unfortunately for reward program designers, these experiments fail to explain why non-cash rewards result in greater goal commitment, greater effort and greater

performance. If one or more of the elements were revealed as the primary reason, designers could focus more of their efforts on that motivational lever. The researchers advise: *"… no single difference is strong enough on its own to motivate greater effort. Rather, firms are best served to use tangible rewards that differ from cash rewards on several dimensions, in order to maximize the perceived difference between the reward and employee's salary."*

- The research confirms that reward program designers should combine the three elements (and possibly others) in non-cash reward programs. Collectively, they should frame rewards as separate from fixed pay to the extent possible, they should emphasize hedonic non-cash rewards over utilitarian non-cash rewards, and they should avoid creating the expectation of a reward to the extent possible. In the words of the researchers: *"Collectively, these results suggest a multitude of differences between cash and tangible rewards may be necessary in order to get the motivational benefits from using tangible rewards."*

Question & Answer with the Authors

Q1. Program designers want to create goals that motivate the most employees for the longest time. What insight, if any, might this research offer incentive travel reward program designers?

> *Goal difficulty is an important parameter to any goal-based incentive program. Studies generally find that difficult, but attainable goals lead to higher effort and performance compared to easy or near impossible goals. We hold goal difficulty constant at a difficult, but attainable level across all conditions in all experiments. In Experiment 1, we find that employees are more committed to earn tangible rewards that differ from cash rewards along three dimensions (separate, windfall, hedonic) than they are to earn cash rewards. Thus, to the extent employees perceive goal-based incentive travel as less similar to salary than cash rewards to salary, our study suggests incentive travel rewards should sustain goal commitment longer than cash rewards sustain goal commitment.*

Q2. In a subsequent paper (of which Adam was a part) the researchers isolated the effects of hedonic versus utilitarian non-cash rewards, and found that hedonic rewards drive greater performance (Mitchell, Presslee, Schulz, Webb, 2019). What do you believe was the difference in the two studies and which result do you believe is most applicable to practitioners?

> *Our research design differs from Mitchell et al.'s (2019) research design in several notable ways. First, we use a goal-based incentive program whereas they use a piece-rate incentive program. Second, compared to Mitchell et al., we examine more, but shorter performance rounds and participants in our study earn more overall compensation (on average). Third, we conducted our research at a different university with a different participant pool. Fourth, the two experiments used different specific operationalizations of hedonic and utilitarian tangible reward. Any one of these design choices (and possibly others or their combination) could have biased against us observing differences between our hedonic and utilitarian tangible rewards.*
>
> *Importantly, we do not think our lack of result suggests a problem with the theory underlying our expectations. Rather, with the benefits of hindsight, our experiment design may have been less powerful of a design compared to Mitchell et al.'s (2019) design in terms of testing theory; despite finding that participants rate the utilitarian gift card as more similar to the cash payment than the hedonic gift card.*

More Questions?

Please forward any additional questions you may have to the authors, Professors Choi and Presslee are in the IRF Academic Network.

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Needs Versus Wants: Which Motivates More Effort?

Citation:Timothy Mitchell; Adam Presslee; Axel K-D Schulz, & Alan Webb (January 2019) Working Paper

Availability: This article is available on request from Allan Schweyer: allans@tmlu.org

Introduction: In this issue of the *Quarterly*, we are fortunate to have three very recent working papers that examine the various reasons non-cash rewards are often more effective motivators than cash rewards. In the first summary, researchers Choi and Presslee attempted to isolate three elements of non-cash rewards that are often cited as reasons for their effectiveness:

A) they are more "separable" from salary than cash, causing recipients to think about them more and differently.

B) When "hedonic" in nature, they spark emotions, causing potential recipients to want the reward more than "utilitarian" cash, work harder for it, and remember it more vividly.

C) Non-cash rewards better avoid the expectation of future reward.

Ultimately, Choi and Presslee could not single out any of these three elements as a significant reason for the effectiveness of non-cash rewards. Rather, they concluded that the combination of the elements make non-cash rewards superior in many circumstances.

In this working paper, released only one month after Choi & Presslee's, the researchers zero in on just one condition: the effort and performance effects of hedonic (i.e., luxury) versus utilitarian rewards – a difference they label "wants versus needs." To do so they apply mental accounting theory to determine whether and to what extent individuals separate hedonic (versus utilitarian) rewards from salary or fixed pay. In the first experiment, they compare the non-cash reward types (hedonic vs. utilitarian). In the second experiment, they compare cash rewards used for hedonic purchases vs. cash rewards aimed at utilitarian purposes. They note that many studies assume cash reward recipients will spend their gains on utilitarian things like groceries and utility bills, but these studies don't typically follow up with subjects to make sure. As such, the argument that hedonic non-cash rewards motivate more than cash rewards is suspect

Summary

Mental accounting theory proposes that people subconsciously classify money and cash-like assets into various categories, or "buckets." For example, a utilitarian ("needs") bucket for paying the mortgage, utilities and groceries, etc. and a hedonic bucket ("wants") for fun things like dinners out, luxury goods and vacations. The great majority of a typical household's salary or paycheck goes into the utilitarian bucket. When a person earns a "windfall," like a bonus or reward, they might mentally classify it into either bucket. If it goes into the big, utilitarian bucket, then *Weber-Fechner Law* suggests it won't make much of an impact. In other words, if someone says you're getting $5,050 in your next paycheck rather than $5,000 it's not likely to generate a thrill. However, if the windfall goes into the much smaller (hedonic) bucket, $50 might excite you because it *feels* proportionately larger against the smaller amount in your fun bucket. The "higher subjective evaluation of the reward, vis-à-vis mental accounting" leads to greater effort and performance at work.

> *In the first experiment, 68 participants were asked to perform a somewhat difficult task and were told they would be paid (in the form of gift cards) in accordance with their performance. Some participants received utilitarian rewards (grocery gift cards) while others received hedonic rewards (AMC movie tickets). The grocery and movie gift cards were used because they scored highest – compared to a range of other reward options – as either utilitarian (grocery) or hedonic (movie) in a survey circulated to a different but demographically similar group of participants beforehand.*
>
> *In the second experiment, the researchers framed cash rewards as either utilitarian or hedonic. 46 different (but demographically similar) participants were either asked to imagine spending their reward on something "fun and exciting," (i.e., hedonic), or something practical they need (i.e. utilitarian). In each case, they were asked to record an example of what they would spend it on. A third group was simply motivated with cash and not asked to imagine how they would use it (no framing).*
>
> *If this experiment showed that cash, combined with communications (i.e. messaging/framing to the effect that the cash might be used for fun and exciting purposes) was successful, it might make life simpler for organizations. Instead of having to think about and test various rewards that might prove "hedonic" depending on the recipient, they could simply offer cash with hedonic messaging.*

Results

- Experiment 1: The researchers predicted that performance-based hedonic tangible (non-cash) rewards would result in greater effort than performance-based utilitarian tangible (non-cash) rewards. This prediction proved accurate: The hedonic non-cash reward group performed significantly better than the utilitarian non-cash group.
- Experiment 2: The researchers hypothesized that despite planting hedonic versus utilitarian thoughts in participants' heads, they would ultimately view the cash reward as a windfall, and account for it the same way, whichever group they were assigned to. As predicted, the framing had no significant impact on participants' reward effort. In the researchers' words: *"Results from the second experiment show no significant difference in performance among the three conditions. This suggests that our framing manipulation was insufficient to offset the perception by participants that all cash earnings in the lab are considered to be windfall gains."*

Actionable Take-Aways

- The findings in experiment one are important and relevant to reward program designers because they add to the body of research that suggests organizations should use hedonic, non-cash rewards as performance-contingent incentives rather than cash or utilitarian non-cash rewards. In the words of the researchers: " … *our results clearly support the motivational benefits of hedonic rewards in settings where performance is sensitive to effort, and there is a linear relation between pay and performance."* Reward designers already know that non-cash rewards often drive better results than cash; this research provides evidence that hedonic/luxury non-cash rewards (versus utilitarian non-cash rewards) may more reliably drive better results than cash.

- Though the study was performed in the lab as opposed to the field, it provides evidence that the utilitarian purposes to which most employees may associate cash rewards, cannot be easily changed. In other words, it probably doesn't work to simply frame a cash reward as hedonic through suggestion (i.e., urge people to spend it on something luxurious for themselves) and hope for the same performance benefits as hedonic non-cash rewards

Question & Answer with the Authors

Q1. On page six you remark that piece-rate incentive schemes may be conducive to translating the differential mental accounting for hedonic rewards into motivation. Some incentive travel programs offer bigger, better options (i.e., destinations, hotel quality, duration, etc.) based on achieving various tiers of performance (i.e., goals/quotas). Would you expect the same thing to hold in these programs as for piece-rate schemes?

In a study directly related to your comment, Adam Presslee and Alan Webb (U Waterloo) examine the impact of cash rewards versus hedonic rewards (merchandise) in a setting where individuals self-selected their own performance goal from a menu of choices. Goals ranged in difficulty from easy to challenging with rewards increasing in goal difficulty. In the setting examined by Adam and Alan, the relationship between effort and performance was not linear throughout the range of performances. That is, rewards were capped upon attainment of the goal with no further bonus provided for performance in excess of the chosen goal. Results show that cash rewards lead to higher performance because individuals selected more challenging goals than those eligible for hedonic rewards. Adam and Alan provide evidence that the merchandise rewards induced employees to select easier goals because of their higher desire to attain the rewards relative to individuals eligible for cash rewards. These results are consistent with mental accounting theory. (Note to reader, the research referred to is summarized in Volume 1, Issue 1 of the Quarterly. Winter, 2018)

We do expect hedonic rewards to have a greater effect in goal-based reward systems where goals are assigned, rather than self-selected. In such settings, mental accounting theory suggests individuals will work harder to attain goal-based hedonic rewards than goals-based utilitarian rewards. However, the relationship between reward nature (hedonic versus utilitarian) and performance in a setting with tiered-goals (quotas) may not be as clear as was demonstrated in our setting using a piece-rate system for two reasons. First, the relationship between effort and performance may not be linear within a given 'tier' (e.g., the number of sales calls required to generate a specific increment of sales varies). Second, employees may view the performance increment required to get from one reward tier to the next (i.e., a higher goal) as unattainable. That is, the average number of sales calls required to generate the sales necessary to achieve the lower tier causes the salesperson to conclude that the next tier cannot be achieved and thus she will be unwilling to exert the effort to do so. Both of these factors could serve to reduce the strength of the reward nature effects we observed in our study. So, while mental accounting theory suggests reward nature would directionally affect effort and performance in a tiered-goal system consistent with our results, the strength of those effects could be weakened.

Q2. You're careful in experiment two to limit your interpretations to lab experiments. But is there reason to believe that employees in organizations would be more susceptible to the framing of cash rewards as hedonic? Wouldn't they be just as likely to view such rewards as windfalls and mentally classify them accordingly?

> *Based on our review of the evidence from organizations, we believe that employees in organizations are actually more likely to categorize cash rewards as additional salary, resulting in a more utilitarian classification. Indeed, the study by Adam and Alan referred to above, shows results consistent with cash rewards being considered less separate than salary compared to merchandise rewards. This suggests, consistent with mental accounting theory, that cash rewards in organization settings are considered less 'windfall' in nature than hedonic rewards. On the other hand, results from several studies show that student participants in lab experiments are more likely to categorize cash rewards as windfalls, resulting in more hedonic classification. In other words, any cash earned by students in lab experiments is mentally budgeted for use on something hedonic, regardless of what we tell them the reward could be used for. This of course worked against our ability to induce effects through cash reward framing.*

> *Overall, we cannot rule out the possibility that reward framing would be more effective in an actual organizational setting where cash rewards are less likely to be considered windfall gains. In such a setting, theory suggests there may be more potential for reward framing to have an effect. As such, we would really like the opportunity to examine this issue in an organization as it has considerable practical implications. Moreover, cash reward framing would be a very implementable manipulation in an organizational setting where cash rewards are already in use.*

More Questions?

Please forward any additional questions you may have to the authors, Professors Mitchell, Presslee, Schulz and Webb are in the IRF Academic Network.

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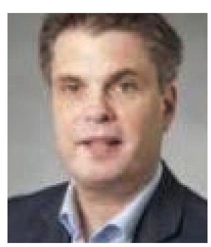

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PRE-RELEASE RESEARCH

Rejections, Incentives, and Employee Creativity: When Chocolate Is Better Than Cash

Citation: Eddy Cardinaels; Bart Dierynck, & Wenqian Hu (July 2018) Working Paper

Availability: This article is available on request from Allan Schweyer: allans@tmlu.org

Introduction: This research is important, interesting, and it is consistent with this issue's theme of investigating the conditions in which non-cash rewards perform optimally, and/or better than cash rewards. It focuses on a very specific aspect of employee performance, yet one that has taken on increasing urgency in recent years – employee creativity. The effects of cash versus non-cash incentives are studied in the context of generating more or less creativity. Specifically, the research examines the impact of cash and non-cash rewards on creativity when an employee's ideas are rejected. Employees whose creative ideas are not selected for implementation may be disappointed and discouraged in future creative efforts, harming the firm's need for innovation.

The experiments in this study investigate what type of reward (cash or non-cash) works better to encourage further creative efforts and outcomes among those whose ideas are rejected. This question will resonate with most knowledge-economy firms today for two reasons: First, creativity and innovation are demanded of more, if not most, employees today. Second, the great majority of creative ideas are rejected, potentially leaving employees repeatedly discouraged and disappointed, leading to loss of creativity and innovation unless the effect can be countered.

Summary

Based on prior research, the authors formed two hypotheses that they tested in their experiments:

H1: *"Employees whose creative ideas are rejected will have lower creative performance in a subsequent creativity task compared to employees whose creative ideas are accepted."*

H2: *"The negative effect of rejections on employee's subsequent creative performance will be mitigated when performance-based tangible rewards are provided compared to when performance-based cash rewards are provided."*

In other words, the researchers expect that rejection of creative ideas leads to poorer performance, but this effect can be mitigated if non-cash rewards are used to motivate previously rejected employees.

The researchers performed experiments involving 188 student participants. Participants earned an average of eight Euros to perform two creative tasks with questionnaires in between. In the first task, pairs of participants were given time to devise multiple creative solutions to the same problem, for which they earned four Euros. Each participant then selected one of their ideas to put forward for evaluation. Next, separate evaluators selected the most creative solution from each pair, such that 50% of participants "won" and 50% "lost." Participants completed an intrinsic motivation survey before being told whether their idea was rejected or accepted.

In the second creative task, participants were incentivized not only with the base pay but with rewards. Participants in group A were told they could earn an additional six Euros if their creative idea was selected (two Euros if not). Group B participants were told they could earn a box of Belgian chocolates if their idea was selected (a pack of M&Ms otherwise). After this round, a rigorous process of evaluating creativity was performed involving 28 raters against specific and consistent criteria. Every submission was rated by at least five reviewers and their scores averaged to identify winners.

Results

- Both the researchers' hypotheses were supported by the experiment.
- Rejected participants performed significantly worse in round two than participants whose previous ideas were accepted, supporting H1.
- Rejected participants in the non-cash group performed significantly better than those in the cash reward group. In other words, in the cash reward group, previously rejected participants performed much worse than previously accepted participants; whereas, in the non-cash reward group, previously rejected participants performed about the same as previously accepted participants. This supports H2.
- The researchers also tested the effect of reward preference and whether or not a participant "liked" the non-cash reward. They found that even where a participant ranked the chocolates low in terms of preference and perceived enjoyment, the effects above held. In other words, non-cash incentives worked to mitigate the disappointment and discouragement of creative rejection *even where the participant didn't like or much want the reward!*

Actionable Take-Aways

- Cash rewards may work better than non-cash rewards to motivate those whose past creative ideas were implemented. However, since a very high proportion of employee ideas are never implemented (i.e., rejected), nearly every employee will, at some point, face rejection. This research provides clear and direct evidence that cash rewards worsen the creative performance of previously rejected employees. Just as clearly, the results show that non-cash rewards essentially erase the disappointment and discouragement associated with having one's creative ideas rejected. Simply stated then, organizations should use non-cash incentives and rewards over cash for tasks involving creativity.
- It is interesting that even where participants may not have wanted the non-cash reward, the effects held. The researchers attribute this to the participant mindset and way of thinking when presented with cash vs. non-cash incentives. The former perform a calculation. They consider the amount of cash reward offered, the effort required in the task, and their likelihood of earning the cash – a very rational thought process that puts them in a transactional mindset as they perform the task. Those incentivized with non-cash rewards, however, don't calculate, they feel. This puts them in a "feeling" mindset as they perform the task. The calculating, transactional mindset produces more stress, anxiety and distraction as the participant performs the task, impairing their creativity. The "feeling" mindset, on the other hand, relaxes the participant, perhaps even enhancing creativity, but at the very least, not interfering with it. This theory is consistent with research that suggests non-performance contingent rewards do not undermine intrinsic motivation because employees are not distracted by calculating the payoff from the task. This suggests that organizations using performance-contingent (i.e., if/then) incentives for creative tasks, should use non-cash rewards.

Question & Answer with the Authors

Q1: You point out that more and more employees are expected to innovate today. It follows then that a growing proportion of most jobs demand creativity. If that's true, to what extent is it safe to generalize your findings to most, if not the entire workforce?

We expect the results to generalize to other tasks where people are required to be creative. The main reason is that employees develop ownership about the output of a creative task and the effect of a rejection is especially salient when employees feel they have put something of themselves in the task. The results are less generalizable to routine tasks as employees typically develop less ownership with the output of such tasks, implying that a rejection (or missing a target) in such tasks will hurt them less. Overall, we expect our results to generalize to tasks where a rejection (or missing a target) really hurts employees because they developed ownership with the output of the task..

Q2. If an employee works hard all year to earn recognition among the top 10% high performers and falls short (i.e., is rejected) do you believe your results will hold. For example, if the reward is a $10,000 cash bonus, then rejected employees will be demotivated next year, whereas if the reward is a $10,000 incentive travel trip, rejected employees won't be demotivated the following year?

The main message of our paper is that the future creativity of the employee that falls short will be lower when, in the next year, he is motivated by means of a cash bonus compared to the situation in which he/she is motivated by means of an incentive travel trip. In other words, the negative effect of a rejection (or not earning a recognition) in the previous period on creativity in the next period will be lower when non-cash rewards are used compared to when cash rewards are used to motivate an employee's future creativity. However, more research outside of the lab is needed to further investigate the boundary conditions of our results.

Our experimental results suggest that cash rewards can backfire if they are provided to rejected employees. Non-cash rewards can mitigate the negative effect of a rejection on future creativity by maintaining employee's interest and enjoyment in the task (i.e., intrinsic motivation). Thus, we show that performance-contingent non-cash rewards may crowd out intrinsic motivation less than what performance-contingent cash rewards do.

We believe that our results go against the 'one-size-fits-all' approach that many firms use when it comes to designing reward systems. Many firms give the same type of reward irrespective the type of our employee. Our results indicate that employees' past experience with a rejection or acceptance can be taken into account to develop reward systems that are adapted to the individual employee

More Questions?

Please forward any additional questions you may have to the authors, Professors Cardinaels, Dierynck and Hu are in the IRF Academic Network.

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Self-Selected Sales Incentives: Evidence of their Effectiveness, Persistence, Durability, and Underlying Mechanisms

Citation: Raghu Bommaraju & Sebastian Hohenberg (2018) Journal of Marketing. Vol. 82 (September 2018), 106–124

Availability: This article is available on request from Allan Schweyer at: allans@tmlu.org

Introduction: The researchers note that most sales organizations still operate one-size-fits-all incentive programs even though salespeople differ greatly in what motivates them. This approach, they posit, discourages all but the highest-performing salespeople and harms competitiveness by failing to raise performance more comprehensively across the sales team.

To help identify concrete means by which organizations can improve their reward program design to motivate better, across-the-board performance, the researchers explored three reward conditions that prior studies have shown to motivate salespeople (and others) to greater performance:

1) An Expectancy Effect: “The greater an individual’s belief that a particular goal is achievable, the more likely the individual is to have a strong commitment to this goal.” In other words, challenging goals that salespeople believe they can achieve lead to better performance (where they also assess the reward as worth the effort).

2) A Participation (i.e., choice) Effect. Better performance occurs where salespeople can exercise choice in their reward (i.e., self-selected rewards).

3) An All-or-Nothing Effect. When salespeople must achieve a target or receive nothing – no matter how close they come – they perform better than if rewards are tiered.

The researchers devised reward programs that variously combined and isolated all three conditions against control groups that offered just one or two of the conditions. They also investigated the lasting effects of the rewards when repeated and when removed.

Summary

Based on prior research, the authors formed four hypotheses that they subsequently tested across two field and two laboratory experiments. In each case, rigorous controls and random selection processes were used.

H1: *“Sales employees’ performance is higher when they work under the self-selected incentive scheme than when they work under an assigned single-quota system.”*

H2: *“Sales employees’ performance is higher when they work under the self-selected incentive scheme than when they work under an assigned individualized tiered quotas system.”*

H3: *“The increase in performance owing to the self-selected incentive scheme is higher for sales* *employees with high (vs. low) variation in past performance."*

H4: *"The increase in performance owing to the self-selected incentive scheme is higher for sales employees with low (vs. high) levels of past performance."*

In summation, the researchers expect that where salespeople have a say in choosing reward options; when that reward program is also tailored to their recent past performance (to set achievable goals), and where they must achieve the performance level associated with the option they choose or receive no reward (i.e., all of nothing) they will perform significantly better than in programs that offer one, two or none of the conditions tested.

The researchers performed two field studies. The first divided 580 sales managers in a major auto manufacturer's US dealerships into either a condition or a control group. Sales managers' prior three month's sales were averaged to set a tailored goal for the experiment, which occurred in the fourth month. The condition group (285) was allowed to select its goal and reward against three options. 0% over goal: $1,000 reward; 10% over goal: $4,000 reward, and 20% over goal: $8,000 reward. The control group was offered one goal and incentive for all: a $4,000 bonus for achieving at least 10% over goal. All or nothing rules applied to both groups.

In the second study, salespeople in four call centers of a Fortune 500 telecommunications firm formed two random groups. Participants in the first were allowed to select from three reward-level options ($40, $120, $250, with steep, progressively difficult targets) while participants in the other were assigned one of the reward level options based on their prior performance.

Studies three and four involved hundreds of online participants in job related tasks for which small, but tiered rewards were used. In both studies, participants were randomly slotted into groups to test the various reward conditions described above.

Results

- *In study 1, automotive dealership sales managers who self-selected from among three reward options substantially outperformed those in the control group who were motivated using a standard (one-size-fits-all) program. These results support H1. Moreover, improved performance among sales managers with mixed performance results in the past, were particularly significant (supporting H3) and especially among past low performers (supporting H4). Finally, the researchers found that performance improvement in the month tested, continued to a degree in the following month, even though the reward was removed. And when the reward was offered again six months later, similar performance improvement results were observed in the condition group.*
- *In study 2, salespersons from the telecommunications call centers who self-selected from among three reward options, significantly outperformed others who were provided personalized, tiered goals based on prior performance, but no choice. As in study 1, prior poor and mixed performers saw the greatest performance gains.*
- *In study 3, in which each of the three conditions were variously combined and isolated by placing random participants into one of several of reward groups, the all-three-conditions group (choice/self-selection, expectancy/achievability, and all-or-nothing) greatly outperformed the others. In isolation, the researchers discovered expectancy and choice to be the most powerful drivers of performance improvement.*
- *In study 4, which tested the durability of the increased performance effect after the program ended and rewards were removed, found that performance gains endure "for some time" afterward.*

Actionable Take-Aways

- **Tailor goals to past performance to make them challenging but achievable. Avoid one-size-fits-all goals.** Build in choice (i.e., self-selection). Don't make it complicated though, it won't work if employees don't understand it. Keep it simple by offering three options or so, as in this study. Calibrate the options to each employee's past performance, and require them to achieve 100% or more of their goal to obtain the reward. Doing so meets all three conditions for motivation, which, as this research suggests, drives extraordinary performance improvements, especially among prior poor and mixed performers. The researchers advise managers to: *"… more actively exploit the heterogeneity of their sales forces—for instance, through applying heterogeneous incentivizing approaches, such as the self-selected incentive scheme, and experimenting with them (e.g., by starting small-scale pilots)."*
- **Consider running your three-conditions program periodically, not continuously.** The results from this study suggest that where salespeople have choice, expectation of reward, and the all or nothing condition, the positive effects of the program continue for a significant time after the reward is removed. This could be because salespeople (especially underperformers), appreciate being involved through choice and they value the implied trust extended to them. It is also possible that their increased effort to earn the reward might have helped them discover new, more effective sales techniques. Perhaps most importantly, an employee who earns a reward is often encouraged and made more confident, leading to better ongoing results.
- **Reintroduce your reward program at intervals to spark more motivation.** This study found that in programs designed to include the three conditions, positive effects do not wear off with repeated use – at least to the extent tested in this research.
- **Expectancy and choice are the most important conditions of the three studied.** Set challenging but achievable goals and then offer salespeople a limited range of incentive options to achieve it. Don't reduce the impact by involving managers in salespeople's individual choice of reward option. In the researchers' words: *"…we advise firms to make the sales employees solely responsible for selecting their own goals and ensure the exclusion of managers or supervisors from this individual decision process. ... If superiors are involved in suggesting goal–reward level selections for their employees, sales employees may not take as much ownership for these goals."*

Question & Answer with the Authors

Q1. To what degree do you believe your results would hold for employees of any type? i.e. non-sales employees?

> *We believe our results would hold true for non-sales employees as long as there are objective ways of measuring performance. In cases where the performance cannot be measured objectively (e.g. software programmer), self-selection might be less applicable.*

Q2. Non-cash incentives and rewards have repeatedly been shown to motivate greater performance than cash rewards under many conditions. If salespeople were working toward an annual incentive travel program, for example, do you think offering three options (e.g., long weekend, 4-star trip/ week-long 4-star trip/ week-long 5-star trip with partner) with escalating performance targets to match (calibrated to past performance and all or nothing) would work as well, worse or even better in driving performance improvements?

> *Great question. We also believe in your assertion - non-cash incentives might escalate performance to a higher degree than cash incentives. In fact, we do have some anecdotal evidence (not noted in the article) that the results with non-cash incentives are superior.*

More Questions?

Please forward any additional questions you may have to the authors, Professors Bommaraju, and Hohenberg are in the IRF Academic Network.

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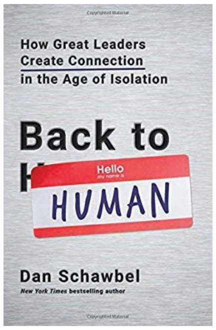
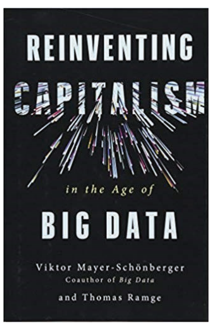
BOOKS REVIEWED & RECOMMENDED



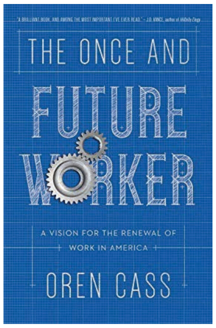
Back to Human

Far from bringing people together, today's social communications technologies and apps drive us apart. Isolation, loneliness and depression have risen, especially among social media and text-addicted youth. At work, impersonal communications erode trust, camaraderie and collaboration, leaving most of the workforce disengaged. Author Dan Schwabel, a Facebook and app-loving millennial himself, wants you to put down your phone, turn off your notifications, and get offline. Instead of liking or texting your friends, colleagues and clients, he urges you to get up and go see them. His advice for young leaders, though repetitive and unoriginal, hits the mark: lead by example, spend time with your team members, get to know them, invest in their development, listen, coach and show that you care. For any new entrant to the workforce, and especially new leaders, we recommend *Back to Human,* if only on the slim chance it convinces you to balance screen time with face-time. For workplace motivation professionals, it offers more evidence surrounding our overuse and over-reliance on tools-based versus face-to-face communications and the dangers of isolation and disengagement they can bring.



Reinventing Capitalism in the Age of Big Data

Ranging across engineering, politics, governance, finance, business and history, *Reinventing Capitalism* breaks somewhat from Mayer-Schönberger's past books, which were focused largely on technology and data. The common theme continues however: Big Data will bring with it big change. Here, he and co-author Thomas Ramge turn their attention to the dynamics of markets, firms and the economy in general. They describe how big data, machine learning and predictive analytics have already begun to equip participants in some markets with far more and better information than price alone. They feature companies that have successfully made price a secondary factor in their businesses, competing instead on better match-making, whether in clothes, cars, careers, or even love. In the not-too distant future, data and information availability will accelerate the transformation of firms into platforms, and will favor markets over companies as the main organizing body in data-driven economies. Though somewhat vague, repetitive and jargon-rich, the authors present much food for thought. We believe economists, and finance professionals – and perhaps long-range corporate planners – will benefit most. Motivation professionals will especially benefit from the last two chapters of the book, which address employees' growing desire for the softer rewards of work, including camaraderie, autonomy, purpose and growth



The Once and Future Worker

Even if you lean left politically, don't dismiss Cass' important arguments simply because he leans right. His indictment of US labor and social policy over the past six decades blames conservatives nearly as much as liberals. Cass's brand of compassionate conservatism advocates generous allowances for those unable to support themselves through no fault of their own. Moreover, his central argument – that policy must support and encourage working workers rather than idle ones – offers more generous and dignified support for the displaced and unemployed than exists currently. Some of what he advocates, an end to unskilled immigration and a shift from welfare for the idle to assistance for the working, for example, may seem harsh, but his remedies don't come across as punitive or mean-spirited. Rather, Cass consistently argues for any change that helps return the American worker to a place of pride, purpose and meaning. He may fall short in his conviction that two-parent, working families represent the problem; he certainly cherry picks statistics throughout, and he probably underestimates the impact that new and emerging technologies will have on work. On the whole, however, we believe that reward and incentive professionals will gain insight into what workers, especially blue-collar workers, seek above all else.

Design Thinking at Work

More than ever, executives seek creativity and innovation from their teams. Their greatest hope is to discover a disruptive breakthrough with which to dominate their industry; their greatest fear is to find themselves on the wrong end of disruption. David Dunne, one of the world's foremost experts in the field, explains how design thinking can offer advance warning of future disruption; a stream of incremental improvements to existing products, and even game-changing innovation, but only if well-understood and applied with great patience. Unlike many authors who extol the wonders of design and creativity, Dunne doesn't cheerlead. Instead he offers a sober assessment of design thinking, including the common mistakes leaders make and the ongoing difficulty of making true design thinking work and last in organizations. We suggest leaders and motivation professionals embrace this slim volume which includes the high-level steps they must take to overcome the common pitfalls that undermine many design thinking initiatives. For motivation professionals, the emphasis on systems-thinking to avoid unintended consequences is, alone, worth the read.