Award Program Value & Evidence

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TABLE OF CONTENTS:

Structure: . . . 3

Glossary of Terms . . . 3

INTRODUCTION . . . 4

Overview . . . 4

PART ONE: . . . 5

Evidence for Incentive, Reward and Recognition (IRR) programs . . . 5

The Role of Cash and Non-Cash Rewards . . . 6

The importance of design . . . 6

The Current Use of Tangible Non-Cash Rewards . . . 9

The Psychological Mechanisms Underlying the Advantages of Tangible Non-Cash Rewards . . . 7

A note of caution in the use of tangible non-cash rewards . . . 11

Recognition at the Forefront . . . 12

Employee Benefits . . . 12

Organizational Benefits . . . 13

Timing, Specificity, and Authenticity Matter . . . 14

Consideration/Caveats: . . . 15

Measuring the benefits of IRR programs . . . 15

Focusing on the hard, tangible financial benefits . . . 16

Works Cited . . . 20

Structure:

This study the first in a two-part series. In part one, *Award Program Value & Evidence*, we discuss the role of recognition in incentive, reward and recognition initiatives and the broad benefits of cash and non-cash rewards. We conclude *Award Program Value & Evidence*, with a discussion around the measurement and reporting of the hard, tangible financial benefits of IRR programs.

In part two, *Establishing the Intangible, Non-Financial Value of Awards Programs*, we review the *intangible, non-financial* benefits of IRR programs in detail, and explore how these benefits can be measured and reported for a more complete understanding of the benefits of IRR programs. In other words, we provide program designers with tools to more fully measure and communicate the value of their non-cash reward and recognition programs. We describe and explain why, in addition to the hard dollar measurement of returns, the intangible returns of the program should also be estimated and reported.

Glossary of Terms

Various terms are used, in some cases interchangeably, throughout this paper. The following are brief descriptions of those terms.

Cash Reward: Any financial reward, including cash (including wires, checks, etc.) and cash equivalents, including stocks, etc.

Non-Cash Reward: Any reward that is not cash or cash equivalent (e.g., travel, merchandise, etc.)

Tangible Non-Cash Reward: Any reward of monetary value that is not cash or cash equivalent.

Tangible Rewards: This term, used mainly in academia as a substitute for "non-cash reward or tangible non-cash reward." It refers to rewards that have tangible value, but are neither cash nor cash-equivalents.

Intangible Reward: Any reward of no financial or tangible value. For example, verbal or written recognition.

Incentive: An incentive is anything offered beforehand to elicit or motivate a person to act, exhibit a behavior, etc. (i.e., if/then) Incentives combine with one or more reward types. For example, a tangible travel reward or cash bonus, or and intangible reward, including the expectation of appreciation. Incentives are often used to drive short-term outcomes, such as sales quotas.

Recognition: All recognition is also a reward and all rewards are forms of recognition. Recognition can be provided in the form of tangible or cash rewards and/or in the form of an intangible reward, such as public acknowledgement and appreciation for something done well. Recognition may be offered after a behavior or achievement (i.e., now/that). Recognition is often used to drive longer-term cultural change.

Introduction

"The purpose of an incentive program is to elicit the right type and level of effort… for the lowest cost." – Scott Jeffrey, 2003

Organizations demand returns from their investments, including investments in incentive, reward and recognition (IRR) programs. Most leaders expect their investments in these programs to drive more sales, increase revenue, and result in a larger share of the market. Leaders may also seek measurable improvements in production costs, product quality, reduced accidents and downtime *and* lower attrition and absenteeism, amongst other outcomes.

Each of the outcomes above is either a direct, tangible and financial measure of a program's effectiveness or one that can be converted to a financial metric easily. Tracking these measur-able improvements is essential to understanding the Return on Investment (ROI) for any IRR program. Less common are attempts by organizations to capture the intangible, *non-financial* benefits of rewards programs on employee morale and engagement, organizational culture, customer satisfaction, citizenship behavior, and the organization's employer brand. (Ittner & Larcker, 2003).

Though collecting data to measure the intangible, non-financial benefits of IRR initiatives is difficult and imprecise, doing so should interest organizations for two reasons:

- First, measurement of both hard, tangible and intangible benefits is a best practice necessary for a complete and effective ROI analysis (The ROI Institute, 2013). Both are included in ROI analysis so that a more complete estimation of the full returns of an IRR program can be captured and documented (Phillips, Phillips, & Schell, 2015).
- Second, by developing a comprehensive understanding of a program's intangible, non-financial benefits through assessment of the value of the program, i.e., "Return on Value" (VOI) – covered in Part Two of this paper – a more complete and compelling business case for the use of such programs can be built.

Overview

This paper attempts to identify and discuss both the hard, tangible and intangible benefits of incentive, reward and recognition initiatives and how those benefits can be captured – measured where possible – and conveyed. In *Award Program Value & Evidence*, we begin by reviewing various types of rewards used in the workplace and comprised in IRR programs, namely cash and non-cash rewards. Next, we discuss increased employee engagement, customer satisfaction, and other additional benefits of the programs. We argue that whenever possible, intangible, non-financial benefits of IRR programs should be included in the intangible column of ROI even if, as in the great majority of organizations, they cannot be easily converted to money.

PART ONE:
Evidence for Incentive, Reward and Recognition (IRR) programs

The Role of Cash and Non-Cash Rewards

Any discussion of the benefits of non-cash rewards should start with an acknowledgement that most organizations also reward their employees and stakeholders with cash rewards.

As Steven Levitt noted in his bestseller, Freakonomics, "Economics is, at root, the study of incentives." Incentives pervade every aspect of our lives from the day we are born until we die (Levitt & Dubner, 2009). To this point, every organization uses one or more form of re-wards to motivate employees, customers and/or other stakeholders. With very few exceptions, every company uses cash rewards such as bonuses and pay raises to incentivize employees.

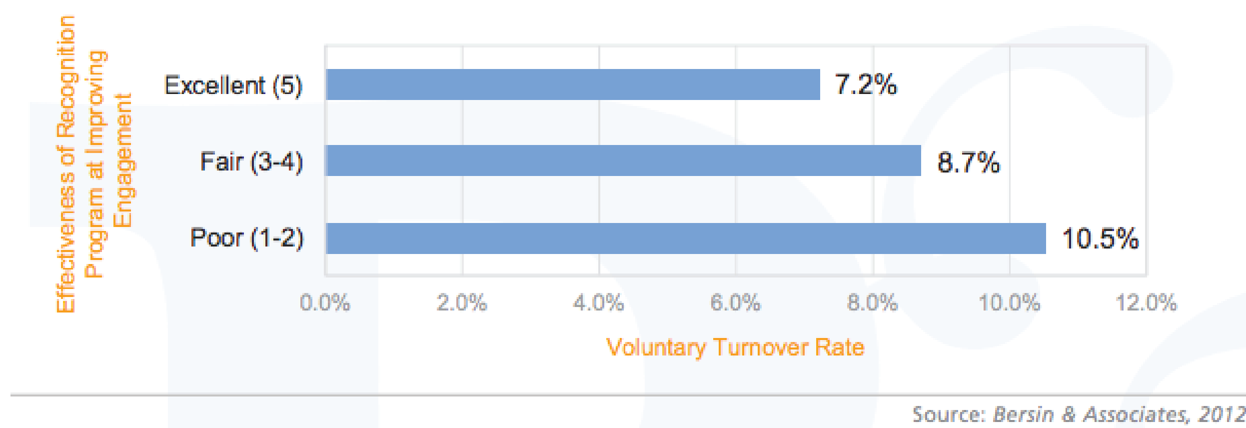
Although there is lingering controversy surrounding the best use of different types of rewards (Ellig, 2011; 2014; Kohn, 1993; Kohn, 1999; Wynter-Palmer, 2013), there is little debate as to whether rewards work to promote productivity. A large body of literature demonstrates the positive relationship between compensation (including rewards) and performance (Fehr, Gachter, & Kirchsteiger, 2007; Brown, Falk, & Fehr, 2004; Hannan, Kagel, & Moser, 2002; Fehr, Kirchsteiger, & Reidl, 1993).

In an early review of the literature—which remains one of the most comprehensive and rigor-ous to date, academic researchers Steven Condly, Richard Clark and Harold Stolovitch reviewed 45 "high-quality" studies conducted over the two decades prior to 2003.

Their meta-analysis revealed that the presence of reward programs resulted in an average 22 percent gain in performance (as compared to organizations offering no reward program). For programs in place longer than six months, average performance gains leapt to 44 percent for individually-based rewards, and to 48 percent for team-based rewards (Condly, Clark, & Stolovitch, 2003).

More recently, in a 2012 study conducted by Bersin & Associates, firms with effective incentive programs enjoyed 31 percent lower voluntary turnover than firms with ineffective programs (see Figure 1).

Figure 1: Highly Effective vs. Ineffective Programs



Source: *Bersin & Associates, 2012.*

Finally, but by no means exhaustively, in a series of three studies with Greek and Canadian workers, Thibault-Landry and her colleagues (2017) found that when used appropriately, rewards, including cash, can lead employees to feel more intrinsically motivated at work, which results in more effort (Landry, et al., 2017).

The Importance of Design

Reward programs work, but as most researchers note, they only produce the desired effect when they are carefully designed. In his 2009 bestseller Drive, Dan Pink says: "… while a few advocates would have you believe in the basic evil of extrinsic incentives, that's just not empirically true. What is true is that … deploying them without understanding the peculiar science of motivation – is a very dangerous game."[1] As the research above attests, well-designed reward programs motivate people to higher performance, resulting in measurable improvements in sales and revenues. The key message here being that reward programs work. But if, and only if, they are *well-designed* (Baeten, & Verwaeren, 2012; Brown & Reilley, 2013).

To this point, even the most committed proponent of rewards will admit that poorly-designed reward programs can cause enormous damage (Madhani, 2014; 2015; 2016). For example, many have found that in incentivized sales contests, employees may intentionally delay sales just before the contest begins to maximize their reward, and perhaps worse, try to squeeze in other sales prematurely toward the end of the contest (FPPMM, 2004). The net effect is that some sales made during the contest (and rewarded) would have been realized anyway, even without the incentive. And those that get squeezed in at the end – often through discounts and various promises – often come back to cause problems in the delivery (FPPMM, 2004). This example of gaming incentives describes just one of the many unintended consequences of cash reward programs that designers must consider (Madhani, 2014; 2015; 2016).

It is not the purpose of this paper to detail each best practice in reward program design. Rather, the rest of this first part of the paper describes an emerging approach and the principles of reward program design. One that emphasizes the use of cash and tangible non-cash rewards as symbols of appreciation – "nudges" to reinforce the meaning and purpose of work – a subtle shift in thinking that leads to better (though admittedly, more difficult) reward pro-gram design, but superior outcomes (Galloway, 2017).

The Current Use of Tangible Non-Cash Rewards

Though there is much evidence that cash rewards can have positive benefits for productivity, a sizable and growing body of research finds that tangible non-cash rewards deliver equal or greater returns to organizations in most circumstances than equivalent cash rewards (Jeffrey, 2017, 2009, 2003; Schall & Mohnen, 2015; Kube, Maréchal, & Puppe, 2012; Schweyer, A.. 2015; Mahmood & Zaman, 2010; Maritz, 2007; Jeffrey & Shaffer, 2007; Heyman & Ariely, 2004).

These findings are somewhat counter-intuitive, since cash (including open-loop gift cards and other cash equivalents) is the most fungible (i.e., flexible) reward. As such, it should be the most effective incentive because it can be spent on anything, including any tangible non-cash reward of equal value that it might be compared to (Kube, Maréchal, & Puppe, 2012). Logically, then, if given the choice, a reward earner should choose equivalent cash over a tangible non-cash reward.

Preference for cash, however, is negatively correlated with reward earner salary. The more people earn, the greater their preference for tangible non-cash rewards, especially experiences, including

travel and merchandise they wouldn't normally buy for themselves (Hein, 1998). In experiments conducted in 2009 by Victoria Shaffer and Hal Arkes, most participants – given the choice of cash or equivalent non-cash rewards – chose the "hedonic" (a pleasurable thing or experience you may want but don't need) non-cash rewards over cash. However, where utilitarian non-cash rewards were offered versus cash, most people chose cash (Shaffer & Arkes, 2009).

University of Waterloo Professor Adam Presslee points out that people may prefer tangible non-cash rewards because they know they'll spend a cash reward on something pedestrian (Presslee, 2017). Supporting this claim, a 2016 IRF experiment suggests they may choose cash because they have a pressing need (IRF, 2017) or, as other research has concluded, they feel guilty or selfish in taking a luxurious or hedonic tangible reward (Prelec & Loewenstein, 1998; Berman & Small, 2012).

Thus, where employees really need the cash, cash may be a better suited reward. Where they do not, tangible non-cash rewards appear to drive better results for organizations and happier outcomes for reward earners, both in terms of engagement and well-being (Shaffer & Arkes, 2009; Jeffrey & Shaffer, 2007; Hsee, 1999).

Perhaps the best evidence of the effectiveness of tangible non-cash rewards is the extent of their use. After all, if cash rewards were as or more effective than tangible non-cash rewards, the art and science of IRR might be far simpler. Cash is easy. It requires little thought, it can be transferred electronically, everyone is certain of its worth and recipients can spend it on whatever they most want. Yet, in the US alone, as of 2016, 84 percent of organizations use tangible non-cash rewards (IRF, 2017). This represents more than a three-fold increase from twenty years earlier, in 1996, when only 26 percent of US organizations used tangible non-cash rewards (IRF, 2017). US organizations now spend more than $100 billion annually on rewards such as travel, watches, trophies and gift cards (Incentive Federation, Inc., 2016).

This gain in popularity and use of non-cash, tangible rewards may be due to a growing understanding of the advantages accompanying tangible non-cash rewards. The psychological mechanisms underlying these benefits are summarized in the next section.

The Psychological Mechanisms Underlying the Advantages of Tangible Non-Cash Rewards

Mental Accounting

One of the advantages of using tangible non-cash rewards stems from a process called "men-tal accounting." Cash rewards are known to trigger a process of mental accounting in recipients, in which the reward earner classifies cash rewards with salary (Thaler, 1985). Subcon-sciously, people blend the cash reward with pay and use it for the same every day purposes – for example, paying the utilities, buying groceries and making car and mortgage payments (Presslee, 2017). As previously alluded to, people tend to make utilitarian purchases when given a cash reward, and consequently derive very little meaning or appreciation from the lat-ter (Dunn, Aknin & Norton, 2014). As these are unmemorable and unemotional transactions, any positive associations between the recipient and the organization that provided it are lost quickly (Allen, Shore, & Griffeth, 2003; Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001).

We know that many tangible non-cash rewards, on the other hand, can linger in in a reward earner's memory for years. Experiential travel rewards, for example, create lasting memories and positive associations with the organization that provided the reward (Jeffrey, 2017). As Professor Khim Kelly states, the tangible non-cash reward "… is not economically more valu-able but the value comes from it being more meaningful, they remember it a lot more and so they enjoy it a lot more. Fun, enjoyable experiences stimulate a part of the brain that cash doesn't." (Kelly, 2017).

To the extent that non-cash rewards promote social connection, such as in group incentive travel, these rewards should have benefits for employees' happiness and even physical health (Whillans et al., 2016). These rewards might also enable employees to spend more and better time with colleagues and other people that they care about, therefore being more likely to promote happiness as compared to cash rewards. Consistent with this idea, in a recent experiment, researchers gave employees two $40 windfalls. Employees were asked to spend one windfall on a material purchase and another on a time-saving purchase. Employees experienced greater happiness after spending on a time-saving purchase, in part because these purchases enabled employees to spend quality time with people they care about (Whillans et al., 2017).

Taken together, these studies suggest that non-cash rewards enable employees to gain more positive social experiences, potentially because they are mentally accounted for in a different way than cash rewards, thus expanding the perceived value of these awards.

Appreciation Versus Entitlement

The process of mental accounting described above causes us to lump cash rewards into the same category as salary or wages. Accordingly, cash incentives may not only be less appreci-ated than tangible non-cash rewards, they might also cause expectations of a similar or greater reward each year – a sense of entitlement (Choi & Presslee, 2017). To maintain their impact year after year, there is evidence that cash rewards must increase (Wynter-Palmer, 2013). This is driven in part by the fact that once an employee receives a cash reward, cash becomes more desirable and employees increase their focus on those rewards (Hur & Nordgren, 2016).

"Several years ago, we helped a client – a multi-billion company – that had only used cash rewards. They felt they were on a hamster wheel, having to increase the cash all the time to have the same impact." – Bob Dawson, Principal Consultant, the Business Group

Worse, if cash rewards are removed, motivation, performance and engagement among past recipients may drop even below levels that existed before the reward was introduced (Bareket-Bojmel, Hochman, & Ariely, 2014; Cerasoli, Nicklin, & Ford, 2014; Frey & Jegen, 2001). For example, in a 2013 study at a semiconductor plant in Israel, Duke Professor Dan Ariely and colleagues randomly divided employees into four groups, three of which were incentivized with either $30, a pizza coupon, or a motivating text message from the boss. The fourth – the control group – received no reward. Performance significantly increased among the three reward groups – about 4.5 percent for cash and 6.5 percent for pizza and for praise. When the rewards were removed, performance in each of the reward groups fell, as might be expected, however, only the cash group's performance fell to a level lower than that which existed before the rewards were introduced. This suggests that the cash reward had become necessary to motivate employees to perform (Bareket-Bojmel, Hochman, & Ariely, 2014).

Effort Justification ("The Ikea Effect")

Even though a tangible non-cash reward cannot be more economically valuable than equivalent cash, recipients often place greater monetary value on tangible awards they are attracted to (Loewenstein, Weber, Hsee, & Welch, 2001). As the researchers put it, this shows "there's something to the idea that you put more value on tangible rewards that you're working toward" (Choi & Presslee, 2017). This has been labeled "The Ikea Effect," which describes the phenomenon by which people place greater than market value on things they've worked to build or achieve (Norton, Mochon, & Ariely, 2011).

In a 2017 study, Adam Presslee and Willie Choi found that participants overvalued hedonic rewards. In their lab experiment, they used movie tickets as the hedonic tangible non-cash rewards and compared them to cash rewards. Even though participants knew the price of the movie ticket ($8.50), when initially asked to estimate its value, the average value they guessed was $9.25. After the experiment, in which participants had to work to earn the reward, they were asked to estimate value of the ticket for a second time and the average value rose to $11.50.

Social Signaling ("Trophy Value")

Among the most powerful advantages non-cash rewards have over cash rewards is their recognition value (Mahmood & Zaman, 2010). Tangible non-cash rewards are highly visible; people know who has earned them. For example, you might ask a reward earner about the TV or the trip they earned, encouraging them to think and talk about their reward repeatedly (Shaffer & Arkes, 2009). Discussing one's cash reward, on the other hand, might come off as "bragging," and be considered socially unacceptable (Jeffrey & Shaffer, 2007). Since tangible non-cash rewards generate greater anticipation, discussion, and "afterglow" than cash rewards, they generate greater impact during and after the implementation of the incentive programs (Adams, 2017).

"It is easy to brag about a reward that isn't cash. You can't go around saying you got a $5,000 bonus but you can talk about the trip or even the toaster oven." – Jennifer Murphy, Director MICE, Atlas Travel

Perseverance, Effort and Performance

The appealing aspect of tangible non-cash rewards also leads to greater perseverance at work. Underlying this effect, Professor Khim Kelly explains that when people find a reward more psychologically attractive, they want it more, so they are motivated to work harder to get it. This emotional attachment leads to behavior change: reward earners like the tangible reward more, so they work harder for it and performance increases (Kelly, 2017).

Recently, in 2017, Kelly and her colleagues led a large field experiment in which participants in consecutive sales contests pursued cash or tangible non-cash rewards (gift cards restricted to hedonic purchases). They found that although there was no significant difference in per-formance between the two groups in the first contest, median sales results in the second con-test were significantly better among those rewarded with the gift cards in comparison to those rewarded with cash. More precisely, underperformers in the first contest who were in-centivized with the tangible non-cash reward did significantly better in the second contest than underperformers incentivized with cash. It is also important to note that participants in the tangible non-cash reward group used a training video made available to them twice as much as those in the cash group, suggesting a greater desire for the reward, leading to greater effort to attain it (Kelly, Presslee, & Webb, 2017).

In another field experiment conducted in 2011 with 441 call center reps in two locations, researchers Scott Jeffrey and Gordon Adomdza found that sales representatives who were incentivized with tangible non-cash rewards performed better than those incentivized with cash. The researchers found that employees "thought more frequently about the tangible [non-cash] incentives than they thought about the cash incentive. This increased frequency of thought was a significant positive contributor to employee performance" (Jeffrey & Adomdza, 2011).

Another experiment – conducted in the lab – further showed that participants receiving tangible non-cash rewards provided work of greater quality than those receiving cash for the same task (Hammermann & Mohnen, 2014). More specifically, participants who were incentivized with gift certificates made fewer mistakes when completing visual tasks compared to their colleagues incentivized with cash. Together these findings support the claim that tangible non-cash rewards often generate greater thought and reflection than cash, making them feel more desirable, which then translates into greater perseverance, sustained effort, and performance (Gneezy & List, 2013; Jeffrey & Adomdza, 2011).

"People think more frequently about non-cash tangible incentives (merchandise and travel) than cash incentives, and as the frequency of thought increases, performance increases. This leads to a larger performance boost for tangible incentives compared to a cash incentive of equal purchasing power." – Scott Jeffrey, Author Interview, 2017

The Reciprocity Effect

Professor Khim Kelly explains that cash tends to be viewed by recipients as transactional, where non-cash rewards feel like gifts and are more social in nature (Kelly, 2017). Said differently, cash rewards tend to lack the longer-term relationship-building and positive emotions benefits that typically accompany tangible non-cash rewards. On the other hand, well-selected tangible, non-cash rewards trigger appreciation, leading to a greater desire to reciprocate the gift because the recipient believes that more thought was put into choosing something they would enjoy (Kelly, 2017).

As Professor Kelly attests, when employees associate an emotionally impactful reward with the firm they received it from, they are grateful and seek ways to reciprocate (Kelly, 2017). Indeed, this "reciprocity effect" is a noted behavioral phenomenon long observed in psychol-ogy (Cialdini, Schaller, Houlihan, Arps, & Fultz, 1987). The urge to reciprocate kind attentions is supported in research that demonstrates a subsequent increase in effort and performance among recipients (Kube, Maréchal, & Puppe, 2008; Prendergast & Stole, 2001). Cash, on the other hand, evokes transactional feelings, which, as an enormous body of engagement research attests, is far less impactful on effort and performance than emotion (Fu, Elliott, Mano, & Galloway, 2017; Institute for Employee Engagement Studies, n.d.); Schaufeli & Bakker, 2010; Harter, Schmidt, & Keys, 2003).

Moreover, reciprocity effects last beyond the receipt of a tangible non-cash reward as well because recipients remember and recall it more frequently than a transactional, cash reward (Silbert, 2005). The more an employee recalls positive memories of a reward, the greater their effort on behalf of their organization (Jeffrey, Silbert, & Nummelin, 2006). A 2005 study by Lisa Silbert, for example, found that recipients of impactful tangible non-cash rewards felt more supported and valued by their organizations, leading to more "desirable workplace behaviors, such as increased job involvement and reduced absenteeism" (Silbert, 2005).

These "citizenship behaviors" – increasingly vital to the success of organizations – are perhaps the greatest advantages of tangible non-cash rewards and are further elaborated in *Establishing the Intangible, Non-Financial Value of Awards Programs*.

A Note of Caution in the Use of Tangible Non-Cash Rewards

While using tangible non-cash rewards many confer many advantages in comparison to cash rewards, a few words of caution are worth mentioning. Certain psychological mechanisms explain why, under certain circumstances, tangible non-cash rewards could have downsides or be less impactful than anticipated.

Hedonic Adaptation ("The Champagne effect")

As Khim Kelly argues, barbeques, watches, TVs, and even exotic trips may lose their novelty and impact over time. Author and industry expert Chris Galloway calls this the "Champagne Effect." He warns that the first glass is the celebration, it is meaningful, but every glass after has less and less impact (Galloway, 2017). Cash, on the other hand, doesn't "get old." Because it is fungible, cash can stay apace of recipients' changing needs and interests. Both Kelly and Galloway warn that if you don't make regular changes to non-cash reward programs to reintroduce novelty and make sure that the same people aren't winning year after year, etc., recipient satiation may occur and these reward programs may lose effectiveness (Kelly, 2017; Galloway, 2017).

Lower Aspirations

The efficacy of non-cash rewards may also suffer in some circumstances, ironically, because they are so salient and appealing. In a 2017 field experiment led by Adam Presslee and Willie Choi, participants in a call center were given the choice of pursuing cash or tangible non-cash rewards in return for successful attainment of goals. Participants were also allowed to set their goals commensurate with the level of reward sought. Those who elected to pursue tangible non-cash rewards – while more persistent and successful in attaining their objectives – chose less aggressive goals than did those who chose cash (Presslee, Vance, & Webb, 2013). Presslee considers this a warning not to use non-cash rewards in some circumstances because employees may be so attracted to the tangible rewards that they set lower goals to be sure to achieve them (Presslee, 2017).

Financial Hardship

Finally, where recipients fall into low income categories, non-cash rewards may be resented and fail to have the impact intended. In Africa and Brazil, for example, where average salaries are low and single-earners often support extended families, cash incentives may be near-essential to survival (Parsons, 2017). Even in higher income nations, studies have shown that stated preference for cash rewards surpasses 80 percent among those earning less than $100,000 per year (Hein, 1998). Cash rewards then may become more appropriate and satisfying based on the recipients' income and financial situation.

Incentive and reward program design – whether it employs cash or tangible non-cash rewards – can be devilishly tricky and fraught with danger. One reason, perhaps why best-in-class companies are more likely to use incentive professionals to design their programs (Incentive Research Foundation, 2017). Broad approaches are especially risky. Ultimately, the best strategy for organizations is to attempt to make rewards as personal as possible. The more that leaders know about their employees – their needs, interests, aspirations and how they like to be

recognized – the more likely they will devise effective rewards that appeal to people on as close to an individual basis as possible (Parsons, 2017; IRF, 2017).

"If we don't profile people correctly, and really listen to what they want, then impact to performance is minimal; why would I work hard to achieve something I don't want? The overwhelming quantitative and qualitative research we have been doing for the last six years has given us empirical evidence that freedom of choice of reward always, always lends itself to higher ROI for clients." - Catharine Parsons, UwinIwin

Recognition at the Forefront

"I see tangible and experiential rewards remaining as excellent tools to impact motivation. To maximize emotional connection with an audience, however, they will be used less as the 'carrot' and more as symbols of appreciation and reciprocity." – Chris Galloway, Founder, Animate Growth Partners

Rewards confer recognition, at least implicitly. But to maximize impact, every tangible reward should come with explicit appreciation– a thank you for the specific behavior or accomplishment a person is being rewarded for. It is important to emphasize too, that most recognition comes with no tangible reward. Regular verbal thanks, notes, peers recognizing peers, etc. are one of the quintessential hallmarks of effective, engaged organizations. Recognition, as distinct from incentives and rewards, has tremendous benefits for employees, stakeholders and organizations.

Employee Benefits

Rewards of all types, whether they be cash or tangible non-cash rewards, should be primarily directed at sparking the positive emotions that come with feeling included, valued and appreciated.[2] Cash and tangible non-cash rewards should be used to bring fairness and equity commensurate with effort and achievement to reinforce the primary message of recognition and appreciation (Ariely, 2016; Larson, 2017; Thibault-Landry et al., 2017, 2018).

Nearly 95 percent of employees who report being happiest at work say that their managers excel at giving feedback and recognition (Crabtree, 2011). Recognition is so vital that nearly 80 percent of employees who quit their jobs do so mainly because of a lack of appreciation in their workplace (Gostick & Elton, 2009).

In their 2004 paper in the journal *Psychological Science*, Ariely and Heyman state: "This perspective can shed light on the well-established observation that people sometimes expend more effort in exchange for no payment (a social market) than they expend when they receive low payment (a monetary market)" (p.787). Over the years, Ariely has conducted a series of experiments in which participants are asked to perform quick, simple tasks for small cash rewards. He consistently finds that above and beyond the small cash reward offered, mere acknowledgement of a person's work "is a kind of human magic – a small human connection, a gift from one person to another that translates into a much larger, more meaningful outcome." (Ariely, 2016, p.27).

An authentic 'thank-you' (with specifics) from a respected leader or colleague is often enough appreciation to motivate employees. Indeed, it is known to cause the release of dopamine, oxytocin and serotonin – neurochemicals that induce feelings of pleasure – in recipients. It would thus appear that receiving recognition has the double benefit of delivering a biologically pleasurable experience in addition to bringing cognitive satisfaction (Robison, 2006).

Organizational Benefits

Accordingly, a 2003 report in the McKinsey Quarterly indicates that employees who earn sufficient salaries are more motivated by managerial praise and one-on-one conversations with leaders than by cash rewards, stock options, or even pay raises (Dewhurst, Guthridge, & Mohr, 2009). Even amongst middle-income workers in automobile assembly factories (O'Reilly & Pfeffer, 2000) and low-paid enlisted sailors in the US Navy, for example, recognition, appreciation, inclusion and respect – without cash or tangible non-cash rewards – can produce astonishing and transformative results (O'Reilly & Pfeffer, 2000, Abrashoff, 2008, Marquet, 2013).

For example, when Toyota took over GM's worst performing auto assembly plant in 1984 in Fremont, California, a workforce rife with absenteeism, drug abuse and violence turned around almost overnight to rival the best Japanese plants in the world and become North America's highest performing plant. The operation, named New United Motor Manufacturing, Inc. (NUMMI) followed the Japanese system that emphasizes employee involvement, including autonomy, respect and job security (Shook, 2010). Similarly, US naval officers Mike Abrashoff and David Marquet turned two of the worst performing crews in the Navy and made them the best, in short order, and using the intangible rewards of recognition, purpose, autonomy, respect and inclusion (Abrashoff, 2008; Marquet, 2013).

In a similar vein, much evidence points to the fact that recognition, on its own, is a sufficient reward to bring about significant impacts, including better customer service (Wilches-Alzate & Jeffrey, 2016). Polls and surveys are increasingly reporting manager and peer-to-peer recognition as equal to cash and tangible non-cash rewards in motivating and engaging employees as (Dewhurst, Guthridge, Mohr, 2009). This is further corroborated by empirical evidence (e.g., Dubinsky & Skinner, 2002). A survey by Gallup and Carlson Marketing Group Inc. in 1998, found that twice as many of the 2,000 IT employees they surveyed prefer recognition from managers and supervisors to cash bonuses or salary raises tied to productivity (Villano, 1999). A 2009 McKinsey survey of more than 1,000 executives, managers and employees found that intangible rewards, such as praise and attention from leaders, and "opportunities to lead projects or task forces" are more effective than cash bonuses or pay raises and almost twice as motivating as stock options (Dewhurst, Guthridge, & Mohr, 2009).

Among well-compensated employees, it is even possible that people will pay for recognition. In a 2009 paper, Harvard professor Ian Larkin describes a firm in which software salespeople earn higher rates of commission as they book incremental sales over the course of a sales quarter. Sales at the beginning of the first month in any quarter earn a standard commission but additional sales over the remainder of the three months earn increasing rates of commission. The company also runs an annual "president's club" to formally recognize the top ten percent of salespeople, it operates on the calendar year while sales quarters follow the fiscal year. In December, some salespeople find themselves on the cusp of qualifying for the "president's club." In these cases, Larkin found they will book sales immediately (to qualify) rather than delay them into subsequent months to earn higher commissions. On average, salespeople forego about $30,000 (roughly 5% of take home pay) just to get into the president's club, a distinction that earns them a gold star, an email from the CEO, and a weekend trip worth a few hundred dollars. Larkin has found that president's club members enjoy no higher rates of promotion or do better financially in the future, their motivation, he concludes, is based entirely on the recognition and their "standing" (i.e., status) versus their peers (Nobel, 2011).

Peer recognition can also build connections and bonds that satisfy employees' need for belonging (Deci, Koestner, & Ryan, 2001). Praise from colleagues can help promote teamwork and can be used to focus employees on values and shared goals (Devillers, 2017). Doing so, moreover, appears to drive better performance. Much empirical evidence stemming from Edward Deci and Richard Ryan's Self-Determination Theory points to the importance of em-ployees feeling connected to their workplace and colleagues, which consequently leads to better performance, motivation, and overall wellbeing (e.g., Gillet, Forest, Benabou, & Bentein, 2015; Thibault-Landry, Eagan, Manganelli & Forest, 2018; Trépanier, Forest, Fernet & Austin, 2014).

In a recent controlled field experiment involving 180 farm workers over an 18-week period, researchers showed workers a 3-minute video in which internal beneficiaries of the farm workers' efforts acknowledged and thanked them for their work (i.e., explaining how their efforts helped them do their jobs better). This video alone proved a powerful motivator, gen-erating a 7 percent increase in performance (as measured in tons of produce harvested) com-pared to the control group that did not see the video (Green, Gino, & Staats, 2017). These findings with other research document the benefits of showing employees the impact of their work (Aknin, Dunn, Whillans, Grant & Norton, 2013).

Another recent study of 3,508 employees in customer service positions, demonstrated that "fair, consistent, and timely" manager and peer-to-peer recognition significantly improved customer experience and overall citizenship behaviors (Wilches-Alzate & Jeffrey, 2016). And in a 2005 study of 235 managers, researchers found employee recognition to be the most common and most effective form of reward (including cash and other non-cash rewards). Managers reported significant improvements in retention, communications, sales, organizational values, customer satisfaction and teamwork (Peltier, Schultz, & Block, 2005).

More recently, a Society for Human Resources Management (SHRM) report in 2012 citied significant advantages in engagement, retention and performance among firms with "strategic recognition programs" (SHRM/Globoforce, 2012). In financial terms, research reveals that the practice of effective appreciation in organizations leads to three times the return on equity & assets (Ventrice, 2009). Firms appearing in Fortune magazine's annual 100 Best Companies to Work For – a list comprised of companies that rank high in providing effective recognition average 50 percent less turnover and enjoy 15-25 percent greater return to investors than other companies in their industries (Nelson, 2012).

Timing, Specificity, and Authenticity Matter

Providing positive feedback is a happy occasion for both giver and receiver but its impact varies widely depending on how it is delivered. Specific praise given in a heartfelt, timely manner is much more useful and meaningful to the recipient than a vague pat on the back (Harvey, 2015). Recognition should, therefore, reference specific behaviors or achievements; and it should be accurate, not exaggerated (Dawson, 2017). The frequency and amount of recognition should be increased by incentivizing and training managers and supervisors to show their appreciation for employees as a component of their day-to-day work (Robinson, 2006; Shafiq & Ahmed, 2014).

To increase the amount and frequency of appreciation and recognition, a formal peer-to-peer recognition system can play a vital role (Achor, 2016). According to Jennifer Murphy, incentives

director at Atlas Travel, when peer-to-peer recognition platforms are implemented, firms gain better insight into high performers and effective manager/leaders. By increasing the frequency and range of recognition, such a platform may lead to a better culture, and a better place to work. These effects make it easier and less costly to recruit top talent. Employees are also more likely to stay and work harder and less likely to speak negatively about their employer; including on the relatively new, yet explosively popular social media sites such as Facebook, Glassdoor and Indeed (Murphy, 2017).

"We have a definitive, intentional desire to change our culture through more engagement and satisfaction, retention and innovation. Our goal and metric is that employees should be engaged to the point that when they see inefficiencies or opportunities, they bring those things forward. Our recognition platform is a key driver." – Jane Larson, ITA Group

Consideration/Caveats:

Though simple recognition often delivers powerful results, some achievements warrant a tangible component to recognition commensurate with effort (Loewenstein & Thompson, 1989; Walster, Walster, & Berschied, 1978). For example, a simple "thank-you" after an employee has worked long hours – perhaps including weekends and evenings – might evoke negative feelings of inequity (Walster, Walster, & Berschied, 1978). Acknowledging this, most organizations include tangible, non-cash reward components in their IRR programs. Similarly, in most peer-to-peer recognition systems, employees reinforce their appreciation by awarding each other points that can be accumulated and then redeemed for tangible, non-cash rewards (Greenberg & Maymin, 2013; SHRM/Globoforce, 2012).

Measuring the Benefits of IRR Programs

The previous section assessed the benefits of cash and non-cash rewards, but it is also necessary for organizations to consider how best to capture and track the value inherent in these programs.

In their landmark 2005 study of the use and value of rewards and incentives, Professors Peltier, Schultz and Block found that "clearly defined, measurable objectives" are among the most important success factors in IRR programs. The researchers held that this is true whether the objectives of the program are hard, tangible, and easily measurable (e.g. increased sales), or intangible and more difficult to translate into financial metrics (e.g., greater collaboration). Incentive programs that are assessed based on tangible, financial objectives as well as intangible, non-financial objectives result in improvements at both levels (Banker, Potter, & Srinivasan, 2000).

Nonetheless, at the same time, researchers find that one of the great weaknesses of most of these programs resides exactly at this level – the lack of success indicators, measurable objectives and measured outcomes. They advise that measurement is "a key area of development of employee motivation and award programs if they are to generate the senior management support they deserve" (Peltier, Schultz, & Block, 2005, p.68).

In the following section, we review some of the ways IRR programs have been linked to tangible, concretely measurable, financial benefits. While the last section of *Award Program Value & Evidence* focuses on measurement of the financial benefits of IRR programs, Establishing the Intangible, Non-Financial Value of Awards Programs explores how organizations should identify, measure and report their intangible, non-financial benefits.

Focusing on the Hard, Tangible Financial Benefits

As above, when organizations measure the success of their IRR programs, they tend to focus on the financial benefits. In a 2017 survey of more than 350 U.S. based large firms, the Incentive Research Foundation (IRF) found that more than three-quarters of top performing companies analyze performance data from their employee incentive programs against sales data and use that information to improve decisions (IRF, 2017).

Typical metrics tracked include decreased turnover and increased productivity (e.g., widgets produced), sales, revenue, market share, as well as gains in customer loyalty and satisfaction, and even customer acquisition, where customer lifetime value is known (Bryant, & Allen, 2013; IRF, 2017; Incentive Federation, 2016; Madhani, 2014; 2015; Peltier, Schultz, & Block, 2005).

In its 2015 Program Design Study (U.S.) the Incentive Federation found that 73 percent of firms measure financial productivity and 49 percent track retention in their employee incentive programs. In sales and channel partner incentive programs, almost 70 percent measure revenue from increased product sales, while 49 percent and 75 percent, respectively, track new customers. Half the respondents say they track increased market share in channel programs, while in sales programs, only 20 percent measure salesperson retention.

Other hard measures include incentive program impact on absenteeism. More granularly, some firms weight absenteeism higher or lower depending on the day of the week. For example, Friday and Monday score higher (worse) than mid-week absenteeism (Devillers, 2017). The notion of weighing impact variously is a central component of Return on Investment (ROI) analysis which aims to establish a full and credible estimation of program benefits.

Measurement of some elements of the intangible returns of IRR programs seem to be picking up momentum in companies. The IRF recently conducted a study of 137 managers of reward initiatives. When surveyed, they reported being more likely to assess the impact of their reward programs with regards to employee retention, customer satisfaction, and overall performance when using exclusively non-cash incentive programs than when using exclusively cash reward programs (Schweyer, Thibeault-Landry & Whillans, 2018). Moreover, managers using the broad spectrum of cash and non-cash tangible and intangible rewards were found to be more likely to link their customer satisfaction data to their hard, financial revenue metrics than their counterparts using only cash reward programs (Schweyer, Thibeault-Landry & Whillans, 2018).

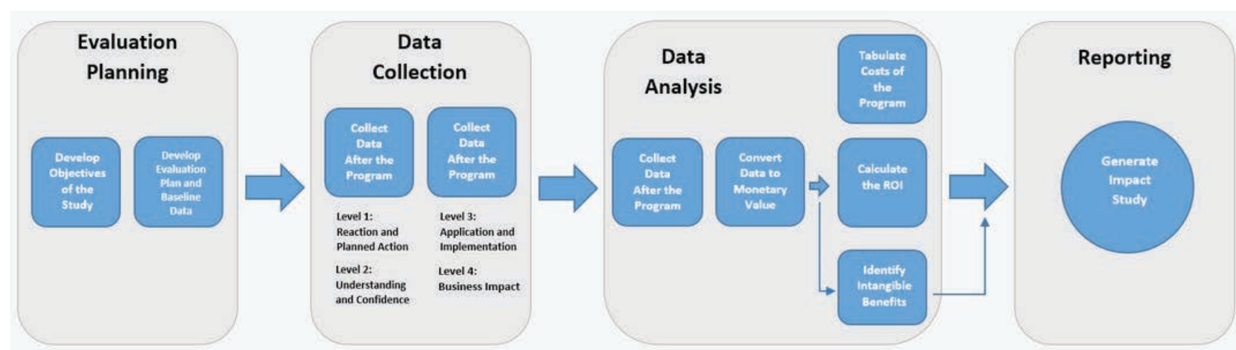
This is further corroborated by the finding that when companies use both cash and non-cash reward programs, they tend to tie their cash reward program component to hard, financial metrics, such as performance and revenue, and their non-cash reward program component to intangible benefits such as employee presenteeism and satisfaction (Schweyer, Thibeault-Landry & Whillans, 2018,).

One interesting exception to note is the increased likelihood of companies using these mix of rewards initiatives to tie their non-cash rewards to employee absenteeism, which is easily translated to a hard, financial metric. This suggests that some metrics may be intuitively easier to measure and associate to non-cash reward programs. As it would appear, companies may already have the desire to measure the impact of their IRR initiatives, but may simply lack the knowledge to conduct appropriate ROI.

Return on Investment analysis

A relatively small but significant number of firms use formal ROI calculations, such as the ROI Methodology™ (see Figure 2) to determine the net benefits of their programs (Dawson, 2017; IRF, 2017; Phillips, Phillips, & Schell, 2015; Incentive Federation, 2015).

Figure 2: The ROI Methodology™ Process and Calculation



The ROI Institute, 2016

An ROI analysis using the ROI Methodology™ compares the full costs of an incentive pro-gram to its gains – both tangible and intangible (as discussed in the second part of the paper) – normally within a one-year time frame after the termination or last cycle of the program. The calculation to arrive at the tangible, financial returns uses simple math: Total benefits minus total costs divided by total costs, multiplied by 100 to get a percentage ROI.

Organizations using the ROI Methodology™ should include every benefit that can be credibly converted to money. Obviously, changes in sales may be the best measure where sales incentives programs are concerned. In these and other programs though, employee absenteeism and employee and customer retention can be accurately converted to hard dollars and should also form part of the equation.

In some settings, changes in employee theft of company assets – including padding expense accounts – and theft of their own time (i.e., arriving late, leaving early) can and should be measured (Ariely, 2016). In incentive wellness programs, organizations might calculate increased enrollment and use of associated benefits and then calculate the hard dollar returns, such as lower health premiums, reduced absenteeism, etc.

In measuring ROI, it is important to consider external factors that might have impacted the results. For example, if the economy changed during the period of measurement, or if a main competitor went out of business, it will impact the metrics (e.g., sales) used to calculate returns. An attribution estimation, in which those closest to the program determine what percentage of the gains should be attributed to the incentive program, makes the final ROI calculation more accurate.

The quotes below come from expert IRR program designers who provide design services to clients worldwide. They capture most of what leading firms are doing today in terms of measuring the hard, tangible, financial benefits of IRR programs.

"We use an ROI Model that demonstrates the true bottom line returns on their income statement. We compare the total expense or costs of the program to financial results. Before the program begins, we predict the returns. After the program, we isolate the various initiatives looking for correlations. We tie it to a financial change category and a business goal. In addition to sales and other hard measures we look at absenteeism, attrition and the cost of losing or gaining a customer. We attach hard dollar values to each and perform tangible and intangible ROI calculations every three months during the program and again afterward. It's close but it's not a perfect science." – Bob Dawson, Principal Partner, the Business Group

"We regularly put together sales incentive programs with payouts of 1-2 percent of revenue for incremental sales over objectives. Salespeople agree to their goals with their managers and are rewarded for exceeding those goals. Sometimes we have groups who are not enrolled in the program to compare results with. Measurement is simple – we count everything above the goals as ROI. Where we have a control group to compare with, we typically see those enrolled outperforming those who aren't by about 20 percent. Overall, we experience ROI of 2:1 to 5:1, with typical returns of $2 to $3 for every dollar invested in the incentive program. These results include attribution adjustments. For example, if the industry grows 5 percent during the program and our client sees growth of 15 percent, we reduce it by 5 percent to account for changes in the industry." – Chris Galloway, Founder, Animate Growth Partners

"In our proposals, we establish performance benchmarks so that we can estimate the impact of the program. It's a performance guarantee – if we meet the milestones, we continue, if not, we don't expect it to continue. When we are able to measure, we show significant gains in 90 percent of our programs, and when we can't it's better to part ways. To measure those gains, we do an ROI analysis on hard measures like sales, revenue and profits, but we also look at absenteeism, for example. We isolate the impact of the incentive program through conversations with the client, discounting any general improvements in the market. It's not an exact science but if you are dealing with a reasonable client who understands the effects of the economy and general accounting, it works." – David Sand, CEO, Uwin Iwin International

Supplementing ROI Analysis with Change Point Analysis

It is important to note that in some cases, ROI analysis – even using the ROI Methodology™ – might miss some of the less obvious costs and benefits of a program depending on the thoroughness of those estimating attribution. To overcome this, consider combining ROI analysis with a "Change Point Analysis" to better understand the effects of the incentive program before, during and after its implementation. Put simply, change point analysis determines if, when and how many changes occurred. [3]

For example, in a study involving sales contests in 2003, researchers using ROI and change point analysis discovered a steady decline in sales – below what would have been expected if the contest were not run – for three weeks before the program began. Sales spiked almost vertically when the contest started and then declined for about three weeks after the termination of the contest, despite remaining consistently above baseline expectations Forum for People Performance and Measurement (n.d.).

Using this measurement technique, the research team hypothesized that salespeople deliberately delayed closings a few weeks before the contest began so that they could capture them during the contest, and then worked extremely hard to close as many sales as possible before the contest ended. They hypothesized that sales remained higher than baseline for a considerable period after the termination of the contest because salespeople were closing deals they generated but couldn't finish during the contest.

The net ROI using this more comprehensive technique was higher than the ROI calculation alone – a positive 10 percent (Forum for People Performance and Measurement (n.d.)). The greater insight, though, may be in better understanding the behavioral effects of incentive programs in order to improve design in the next cycle.

Conclusions

The hard, tangible, financial benefits of IRR programs, though far from guaranteed, are well understood and reasonably easy to measure. The intangible, non-financial benefits of IRR programs are less understood and much less documented. They are also more difficult to measure, and are the focus of Part Two published separately under the title: *Establishing the Intangible Value of Awards Programs*.

Endnotes

1 Pink, D. (2009). *Drive: The Surprising Truth About What Motivates Us* (Vol. 1). Riverhead Books. (p.49)

2 See Thibault-Landry et al., 2018 for empirical evidence showing that rewards used to communicate genuine appreciation on behalf of employers lead to better employee motivation, engagement and performance).

3 See: *Change-Point Analysis: A Powerful New Tool For Detecting Changes* (http://www.variation.com/cpa/tech/changepoint.html)

IRF Incentive Research Foundation

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