

US organizations spend well [over \\$100 billion a year](#) on non-cash rewards such as travel, merchandise, trophies, and gift cards, alongside substantial investments in cash bonuses and equity. The reasons are clear: [research and practice](#) have consistently shown that well-designed, non-cash incentive and recognition (I&R) programs can raise performance, strengthen engagement and create lasting “trophy value” that cash alone rarely delivers.

But good incentive design is harder than it may look. Many programs, whether cash or non-cash, [underperform or quietly die](#), others result in [unexpected and unwanted outcomes](#) because they inadvertently incentivize the wrong behaviors. Workers may become cynical about recognition when it feels politicized or unfair. They might ignore point platforms or game sales contests when communications are weak, or programs are poorly structured. Senior leaders might respond to any of these failures by assuming “complex incentives don’t work here” and/or by doubling down on seemingly simpler methods, such as pay-for-performance.

Pure pay-for-performance systems may be more straight-forward, but organizations that eliminate non-cash rewards from their incentive tool kits leave a great deal of potential value on the table (more on cash vs. non-cash below). Tapping into this value, however, can prove tricky. Professional incentive program designers know that non-financial rewards owe much of their effectiveness to factors involving emotion. If people always responded to rewards rationally, cash would always be the strongest motivator. Yet [behavioral economics and psychology](#) show that our decisions are shaped by shortcuts (heuristics) and systematic errors (biases). These include present bias, loss aversion, social comparison, fairness concerns, and many more. [The IRF’s past research](#) on behavioral economics and neuroscience in incentives highlights how emotions, context, and mental shortcuts drive motivation and effort as much as reward value.

These, among other factors, are why designing effective non-cash incentives is a difficult process. If these incentives are to work—and work safely—they must be designed around how human brains process information. That means understanding common pitfalls and intentionally building systems that support psychological safety as well as performance.

A few biases matter most for I&R design:

- [Present bias](#) – people tend to give more weight to immediate costs and benefits relative to future ones.
- [Loss aversion](#) – losses loom larger than equivalent gains.
- [Hedonic adaptation](#) – the emotional impact of rewards fades quickly; today’s bonus becomes tomorrow’s expectation.
- [Social comparison and fairness heuristics](#) – people assess rewards relative to peers and to perceived effort and contribution.
- [Availability and salience](#) – what is vivid, visible, and easy to remember shapes behavior more than abstract messages or buried rules. A [fascinating experiment](#) conducted by the IRF in 2017 illustrates this bias.

- [Complexity aversion](#) – when programs are confusing, people revert to simple rules such as “I never win” or disengage altogether.

Left unaddressed, these biases drive exactly the problems leaders complain about: reward fatigue, entitlement, perceptions of unfairness, counter-productive competition, and risk-taking that undermines psychological safety.

Cognitive pitfalls in common reward practices

Pitfall 1. Over-reliance on cash and under-valuation of “trophy value”

Executives often assume “people just want cash.” But a [large body of research](#) shows that tangible non-cash awards (e.g., travel, merchandise, experiences) can create stronger emotional impact, richer memories, and greater social reinforcement than equivalent cash. Importantly, experiential non-cash rewards can add the additional benefits of bringing people together, reinforcing relationships and building trust.

Behaviorally, cash is fungible; it often disappears into bills and savings. Within weeks, most employees adapt and treat recurring bonuses as part of base pay. That is the effect of [hedonic adaptation](#). Distinctive non-cash rewards are processed differently: they sit in a separate mental “account”, generate stories that workers share, and can signal status – important for social comparison and identity.

For these reasons, professional incentive and reward designers use a mix of financial and non-financial rewards. They build in choice within curated options so employees can select rewards that feel personally meaningful, without overwhelming them. They also emphasize experiential elements (trips, learning, family events—even merchandise and gift cards that lead to experiences) that produce memories and narratives rather than one-time consumption.

Pitfall 2. Long lags between effort and reward

Present bias means delayed rewards are heavily discounted. Traditional annual bonuses and long earning periods weaken the perceived link between effort and outcome.

IRF’s research on [points programs](#) finds that frequent, visible accumulation of points – redeemable for personally valued rewards – can keep goals salient and participation high. Experimental work shows that [probabilistic methods](#) (for example, a chance to win a larger reward) can sometimes outperform sure but smaller rewards, precisely because they feel more exciting and immediate.

Good design might combine micro-rewards (e.g., spot bonuses, instant recognition, and/or points) with larger periodic awards and provide real-time feedback and progress cues through the use of dashboards, progress bars, and leaderboards designed for inclusion rather than rivalry. Where appropriate, experiment with probabilistic elements (e.g., contests, raffles, or surprise upgrades) while maintaining transparency and perceived fairness.

Pitfall 3: Crowding out intrinsic motivation

A [large meta-analysis](#) of 40 years of research found that when direct performance-contingent incentives are introduced on interesting tasks, intrinsic motivation and its predictive power for performance can decline. In other words, if you overly control behavior with rewards, people can start working *for the reward* rather than for pride, purpose, or learning.

More recent field evidence is nuanced: [some studies](#) find that monetary incentives do not necessarily undermine performance on enjoyable tasks. But the long-term risk remains: when the reward stops, performance can fall below baseline.

To overcome these obstacles, position incentives as recognition of contribution, not as coercive control. The IRF's [behavioral economics study](#), for example, emphasizes designing rewards that feel like appreciation rather than surveillance. Also tie recognition strongly to purpose, mastery and autonomy, reinforcing why the work matters and how people are progressing toward becoming expert in their domain. Mix in a variety of [intangible rewards and recognition](#) (e.g., a thank-you note, public praise, or a developmental opportunity) to "crowd in" intrinsic motivation instead of replacing it.

Pitfall 4: Ignoring fairness, social comparison, and subjective judgment

Employees judge rewards not only by what they receive but also by whether the distribution feels fair, transparent, and consistent. [Research on tournaments and pay gaps](#) in leadership teams shows that very large spreads can boost performance in some settings, but also increase social comparison costs, resentment, and counterproductive behavior. [Studies](#) of subjective adjustments to formula-based rewards find that when managers are perceived as biased or opaque, people discount the incentives and distrust the system.

The IRF's [Building a Culture of Recognition](#) report underscores that perceptions of fairness, including clear criteria, broad eligibility, and manager training, are central to recognition program effectiveness. Make eligibility rules and criteria explicit, use panels, diverse reviewers and structured rubrics, especially for high-stakes awards, and share aggregate data on who is recognized by function, gender, location, and level. Act decisively and visibly on inequities.

Pitfall 5: Designing by spreadsheet and ignoring salience

Organizations often design programs around financial models and complex scorecards. But employees respond to what they can see, remember, and explain to themselves in a sentence. The IRF's research on [award program value and recognition ROI](#) shows that integrated, well-communicated programs where messages, behaviors, and rewards are aligned outperform fragmented initiatives with multiple overlapping components.

To factor in for salience, limit programs to a small number of clearly branded vehicles (for example: sales incentives, performance recognition, living the values, peer-to-peer recognition). Use visual cues and storytelling, for example, photos of reward earners, short videos, narrative case studies, to make desired behaviors vivid. Align your rewards with a concise set of strategic behaviors, not everything on the corporate wish list.

Pitfall 6: Complexity, choice overload and “rules nobody reads”

Research in [behavioral economics](#) shows that when systems are complex, people often default to inaction. The IRF’s [nudge guide](#) highlights how overly detailed rules, long terms and conditions, and cluttered reward catalogs can sap motivation. As recommended in that study, apply the EAST framework (Easy, Attractive, Social, Timely): simplify earning rules, reduce the number of tiers, pre-enroll participants, and design communications that highlight social proof. Also offer guided choice by way of curated lists, “featured rewards” and search filters, rather than massive unstructured catalogs. Finally, test your design with a small group and ask them to explain the rules back; if they can’t, simplify again.

Pitfall 7: Undermining psychological safety

High-powered incentives and public rankings can create pressure to hide mistakes, hoard information or [engage in unethical behavior](#), especially when combined with fear-based management. Tournament-style rewards have been shown to increase effort, but also to carry adverse side effects such as sabotage, stress, and disengagement among lower-ranked participants.

By contrast, [research](#) connects recognition, fairness, and supportive leadership with higher engagement, lower burnout, and better mental health outcomes. Field experiments demonstrate that sincere, unexpected recognition can raise performance without the negative spillovers associated with pure financial contests.

Treat psychological safety – the shared belief that it is safe to speak up, take risks and admit mistakes – as a design fundamental, not an afterthought. Avoid programs that punish failure publicly (for example, “bottom 10%” lists, shaming, or overly competitive dashboards). Focus on learning and improvement. Balance individual incentives with [team-based and peer-to-peer recognition](#), which research shows can increase helping behavior and collaboration.



Cognitive pitfalls are not bugs in your employees; they are features of human decision-making. Incentive and recognition programs that ignore them will, at best waste money and at worst, erode trust and psychological safety.

Emergent evidence – from IRF’s behavioral economics and recognition studies to recent peer-reviewed research on motivation, tournaments, and psychological safety – points to a clear agenda for senior leaders:

- Shift from “more pay for performance” to smarter, behaviorally informed incentive design.
- Use non-cash, memorable rewards alongside financial ones to combat hedonic adaptation and create lasting value.
- Build fair, transparent, and inclusive systems that acknowledge social comparison and intrinsic motivation.
- Anchor everything in a psychologically safe culture, where recognition serves as a vehicle for connection, learning, and shared purpose.