Advancing The SCIENCE of MOTIVATION & incentives through RESEARCH

The State Of 2011 Tangible Incentive Research
The Use Of Tangible Incentives

Foreword

The Incentive Research Foundation and Incentive Federation recently conducted an audit of published studies supporting the incentives and recognition industry. The findings outlined in 'The State of Tangible Incentive Research: The Use of Tangible Incentives,' uncovered a collection of studies and writings from the world of academia, industry trades, practitioner journals and an array of books. While the assortment covers two decades, it is interesting that the more recent work provides the strongest rationale for the role that non-cash reward mechanisms can play in the current business economy.

The full findings, available on our website (www.theirf.org) yield actionable insights into the prevailing attitudes and potential uses of tangible incentives, defined as those that carry monetary value but are non-cash in nature e.g. travel and merchandise. While the study showed that academic interest in non-cash incentives has been slow to ramp-up, studies in other fields have surfaced that strongly support the use of tangible incentives as a solution to some of the more common challenges facing today's business leaders. The review uncovered literature that supports how tangible awards capture attention, how non-cash leads to better performance and how tangible incentives drive practical business outcomes. The compilation represents a new resource that validates the use of non-cash incentives and recognition.

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DOING MORE WITH LESS TAKES ON A NEW DIMENSION

Finding a financial justification for any initiative has always been important to senior executives, but in today's challenging economy it is paramount. Like any other business expense, the funding of reward programs attracts intense scrutiny from business leaders looking to slash unnecessary expenses. For any request to gain approval—and survive ongoing budget battles—the proposed idea must demonstrate that it will likely drive better outcomes than other alternatives. In the reward and recognition world the alternative is cash. **Some of the recent studies highlighted in the larger report make a clear and compelling argument that non-cash's influence over people can be more powerful—and as such more profitable—than cash alternatives.**

Over the years there has been significant writing by various practitioners that strongly supports the use of tangible incentives and makes a strong case for their motivational value. That is not news. However, as organizations continue to stress doing more with less, their analysis becomes more financially oriented. The debate over the economic impact of non-cash rewards now has a new context. Non-cash is indeed proven to be more "effective" and therefore, more "efficient" than traditional forms of compensation when used properly in the Total Rewards mix, which makes it a more affordable investment.

That statement is worth highlighting as there are some corporate circles where doubts on non-cash effectiveness still linger. Even though the use of both cash and non-cash incentives is increasing, the persistent perception held by many executives is that cash is preferred by their employees and therefore it is more impactful—especially in challenging times.

That conclusion—that cash is always more effective—is often more intuitive than researched-based; more anecdotal than academically proven. And understandable when there is constant pressure to raise pay. But the research contradicts this notion. It is simply not true that cash is always more effective. It is incumbent on the incentive and recognition community to connect the dots in a consultative manner and link proven non-cash strategies to the gnawing business issues that confront business leaders everywhere.

Following are recent findings that practitioners and buyers can insert into the conversation immediately.

TANGIBLE AWARDS CAPTURE ATTENTION

This year a study by Jeffrey & Adomdza (2011) found that non-cash awards capture employee attention. The writers concluded that employees think more frequently about these awards—even when they are an equal value to cash—and that the increased interest leads to higher performance. The logic is simple: since non-cash awards capture an employee's imagination they also motivate them to do more. The increased motivational impact equals increased performance, and for executives focused on the bottom line this documented finding should be central to our business case.

IN THE CURRENT BUSINESS ENVIRONMENT "CASH" FOR PERFORMANCE IS UNDERPERFORMING

The use of ***'pay-for-performance'*** has been increasing in businesses. Today over 83% of firms have some form of performance based pay system in place. While these companies have bought into the concept, the majority also feel that they are not getting the desired rate of return. The satisfaction gap opens a window for award providers to suggest/position non-cash rewards as an alternative incentive. Internal advocates of pay-for-performance will stipulate that when implemented correctly these programs increase employee productivity. The question worth asking is this: Do you have the right award mix in place?

Companies unsatisfied with performance and that rely on cash alone may be interested in a study conducted by Shaffer and Arkes (2009) that found when people make a hypothetical choice between cash and non-cash incentives, cash is indeed preferred by employees. However—and here is the hook—when it's no longer hypothetical, meaning when an award is identified, employees actually performed better in pursuit of it, even when the award was of equal value to the cash alternative. As organizations look to do more with less, the argument can be made that introducing a non-cash component to a pay-for-performance scheme may make it more effective and therefore, more efficient than one with an "all cash" payout.

TANGIBLE INCENTIVES CONTINUE TO DRIVE PRACTICAL BUSINESS OUTCOMES

The academic audit also found several case histories that reinforce the impact merchandise and travel awards have on increasing everyday business results—like sales and reduced absenteeism.

In *"Recognizing Good Attendance: A Longitudinal, Quasi-Experimental Field Study" (Markham, Scott & McKee 2002)* the authors documented how personal recognition and the use of premiums reduced absenteeism among four cut-and-sew garment factories in each of four quarters measured. Reductions ranged from 29% to 52% each quarter for reward recipients, with reductions not found in control groups.

A Comparative Study of Incentives in Sales Force Contest published in *The Journal of Personal Selling & Sales Management* compared cash versus non-cash rewards among 45 insurance agents. The study revealed that travel and entertainment outperformed cash and merchandise awards as incentives for agents to acquire new customers. The program was set up in three teams: one to receive a travel award, one to receive cash, and one to receive his/her choice of merchandise. More sales resulted when travel was offered, with no significant difference in output among teams who would receive cash versus merchandise.

SUMMARY

In an economic environment where everyone is watching every dollar closely it may seem disingenuous to suggest that cash is not the motivator it is perceived to be. But in reality that is indeed the case. Non-cash inducements are actually more effective and therefore, more efficient in capturing an employee's attention. The current business economy continues to represent challenges for everyone. For program planners looking to make a bigger impact, non-cash tangible awards make better business sense. The enduring appeal of tangible awards is well documented. The studies uncovered by the researchers represent an increased rationale for the role of the incentive industry plays and the impact travel and merchandise awards offer as a cost effective enhancement to normal compensation.

Acknowledgements

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