

Evidence-Based Trends in Effective Incentive Design



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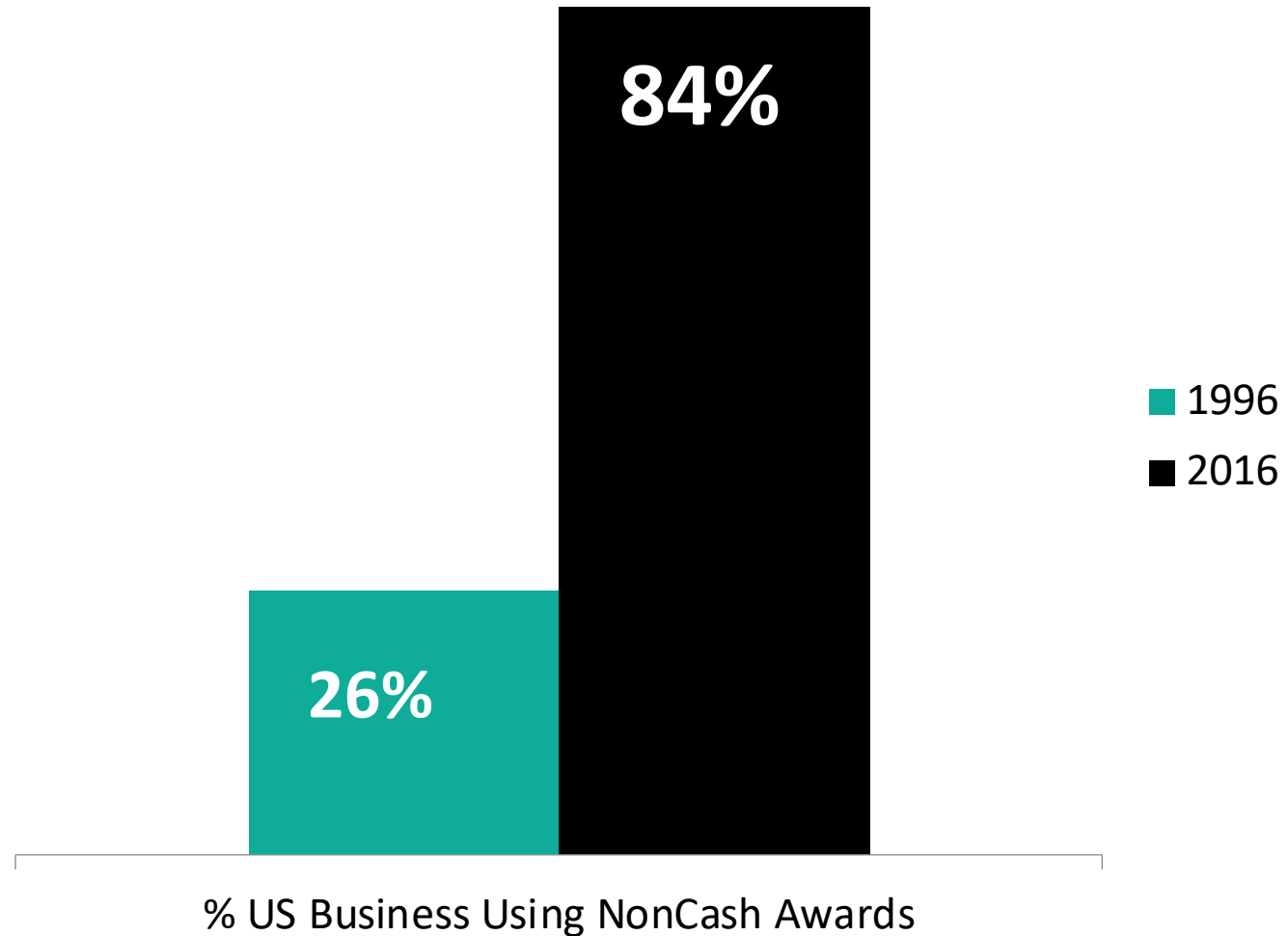
Is Cash King?

When a new VP of sales simplifies the incentive program by eliminating merchandise rewards in favor of cash-only rewards, do sales spike or stall?





Growth in Use of Non-Cash Rewards



IRF[®] History's Most Evidence-Driven Firm Says:

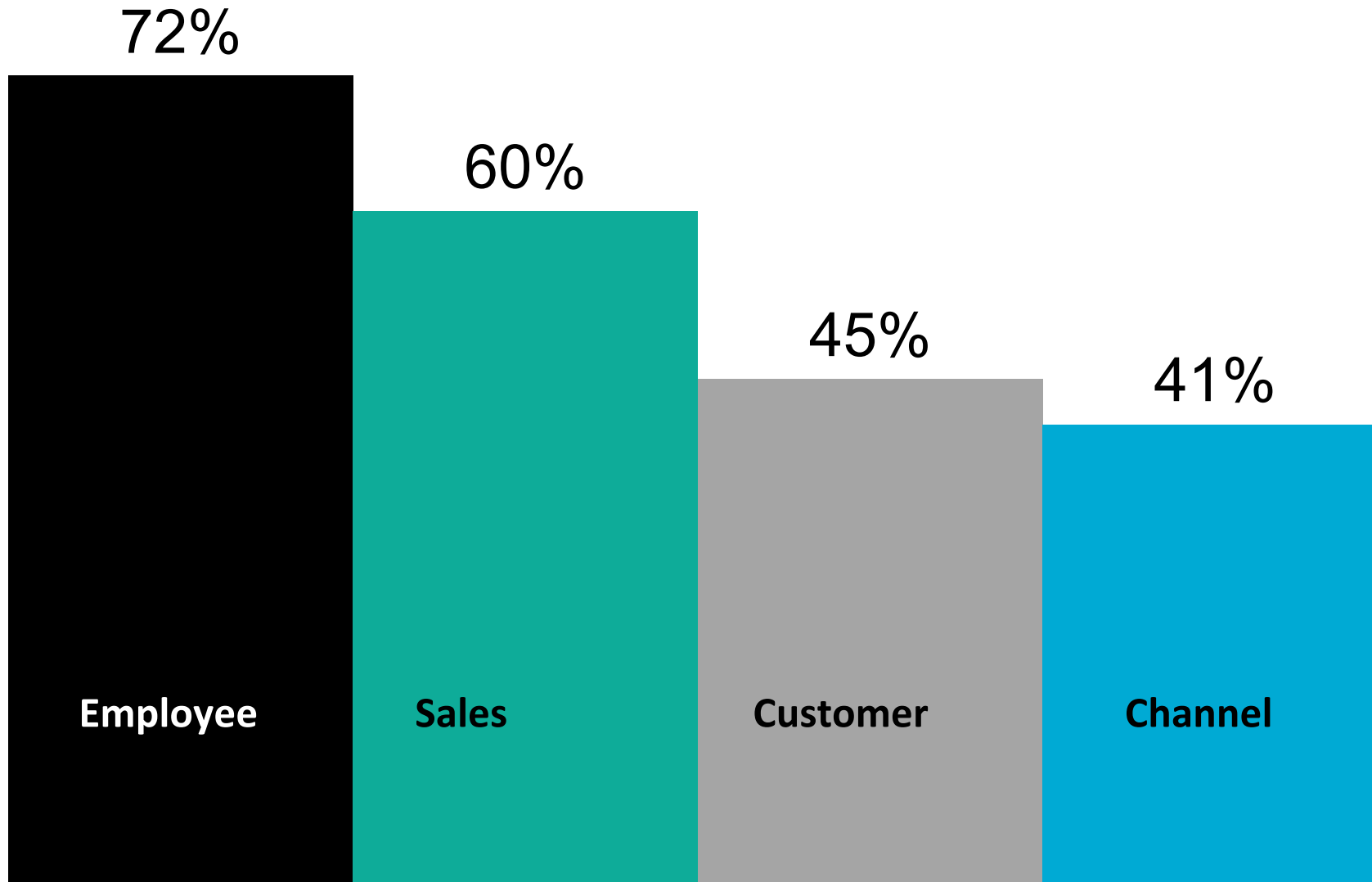
“Instead of making public stock awards, we sent teams to Hawaii. Instead of smaller [cash] awards, we provided trips to health resorts, blowout team dinners, or Google TVs for the home.”

“The result was astounding.”

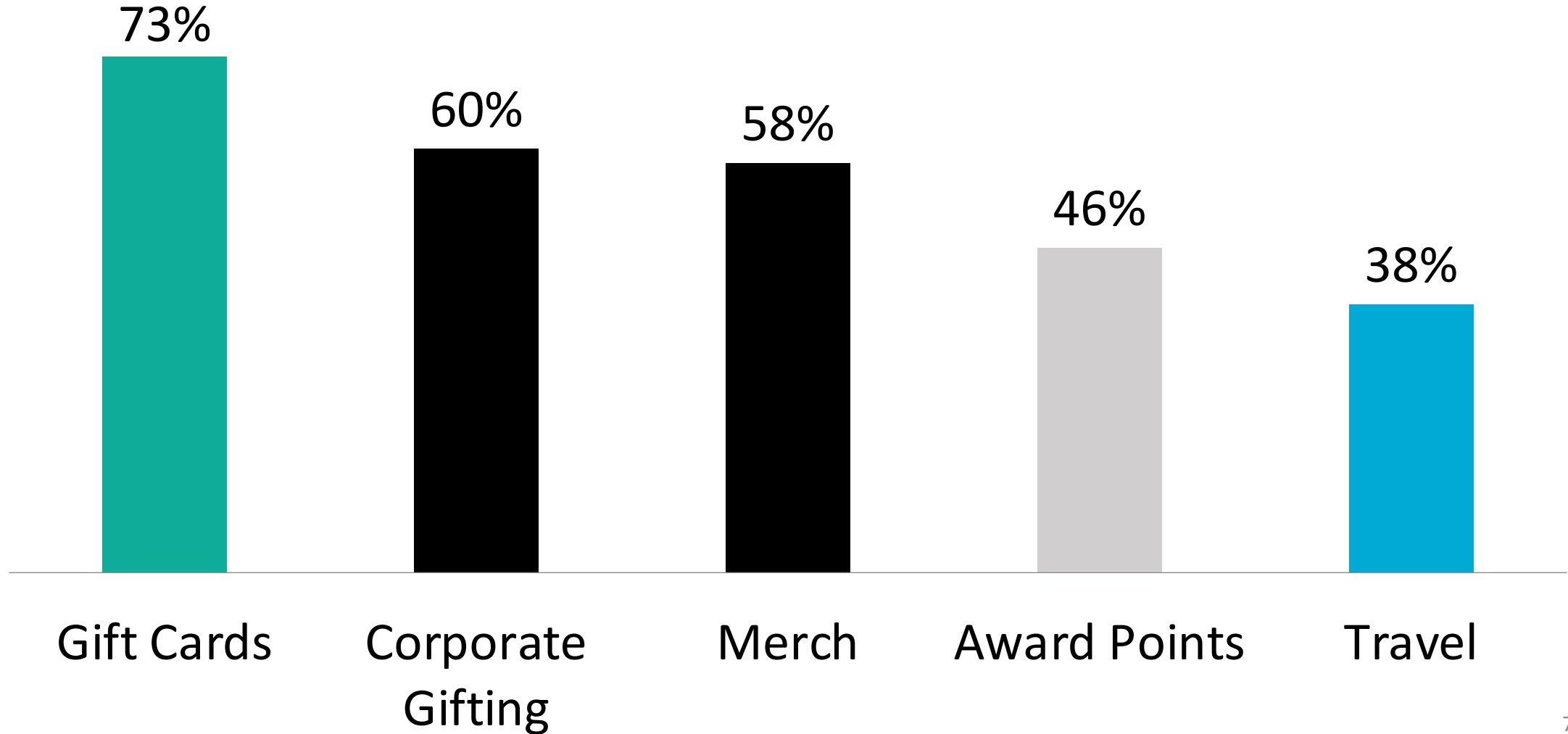
“The joy of money is fleeting, but memories last forever.”



Who Are They Rewarding?



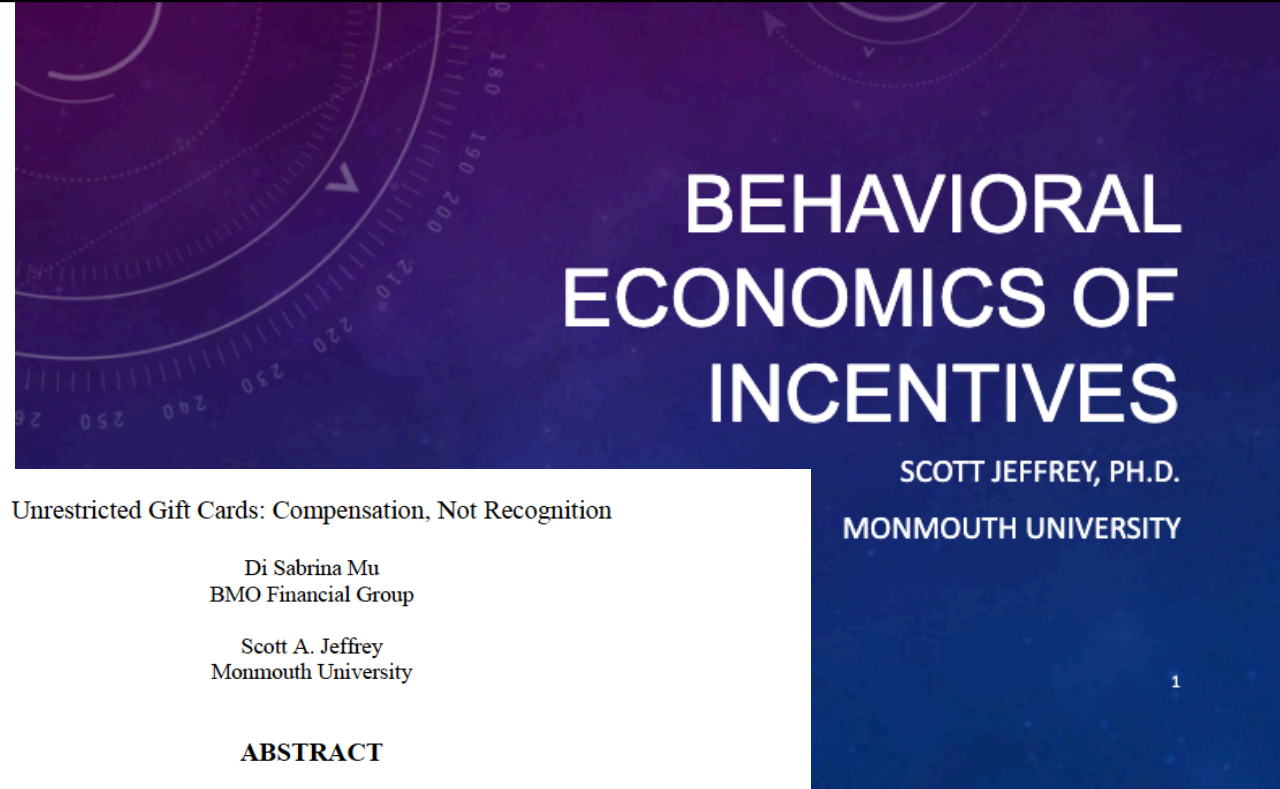
What Rewards are They Using?





Unrestricted Gift Cards: Compensation, Not Recognition

“Individuals perceive and spend unrestricted prepaid gift cards in the same way they spend their own cash. Therefore we conclude that [open] prepaid gift cards are not effective as a recognition vehicle since they are likely to be viewed as compensation rather than recognition for good performance in general.”



BEHAVIORAL ECONOMICS OF INCENTIVES

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Unrestricted Gift Cards: Compensation, Not Recognition

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ABSTRACT

In an archival study of purchasing habits, we discover that individual spending using an unrestricted prepaid gift card is much the same as people's spending of their own funds from other sources. We demonstrate the similarities between gift card and cash spending by identifying direct cash withdrawal, comparing categorical spending percentages, and calculating mean scores of hedonic and utilitarian product dimensions. The results of this study support the conclusion that individuals perceive and spend unrestricted prepaid gift cards in the same way they spend their own cash. Therefore we conclude that prepaid gift cards are not effective as a recognition vehicle since they are likely to be viewed as compensation rather than recognition for good performance in general.

Keywords: Consumer Behavior, Consumer Spending, Gift Cards, Tangible Incentives, Employee Recognition

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BEHAVIORAL DECISION MAKING

Gift Cards and Mental Accounting: Green-lighting Hedonic Spending

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WILEY

“Although gift cards grant the recipient great leeway to find a truly treasured gift, they contain enough constraint (and hence meaning) to signal the gift giver’s connection to the recipient. If the recipient is a coffee lover, a \$50 gift card to Peet’s implies a different understanding on the part of the gift giver than either \$50 in cash or a \$50 gift card to Amazon— even though Amazon offers Peet’s coffee.”

“ We found that people are more likely to purchase hedonic goods with gift cards than with cash or credit cards.”

The Currency of Reciprocity: Gift Exchange in the Workplace



- Presentation of rewards is more important than the reward and perhaps more important than choice as well.
- Workers appear to reciprocate more corresponding to the perceived level of effort and time – and perhaps thought – that goes into the gift.
- In this experiment, an elaborate presentation of cash wrapped in Origami produced the best performance and the highest quality.

It's a Wonderful Life: The Pursuit of Happiness & Hedonic Adaptation



- We derive greater satisfaction, enjoyment and happiness from buying experiences vs. *things*
- Due to “*hedonic adaptation*,” people tend to adapt quickly to new cars, raises and bonuses (i.e., the thrill wears off fast)
- The same is not true for experiences. Indeed, if anything, people tend to *upgrade* their memories of trips, adventures and other experiences in retrospect, remembering the best elements and forgetting or downplaying the worst

“Psychologically, it is the experience that lives on and the possession that fades away”

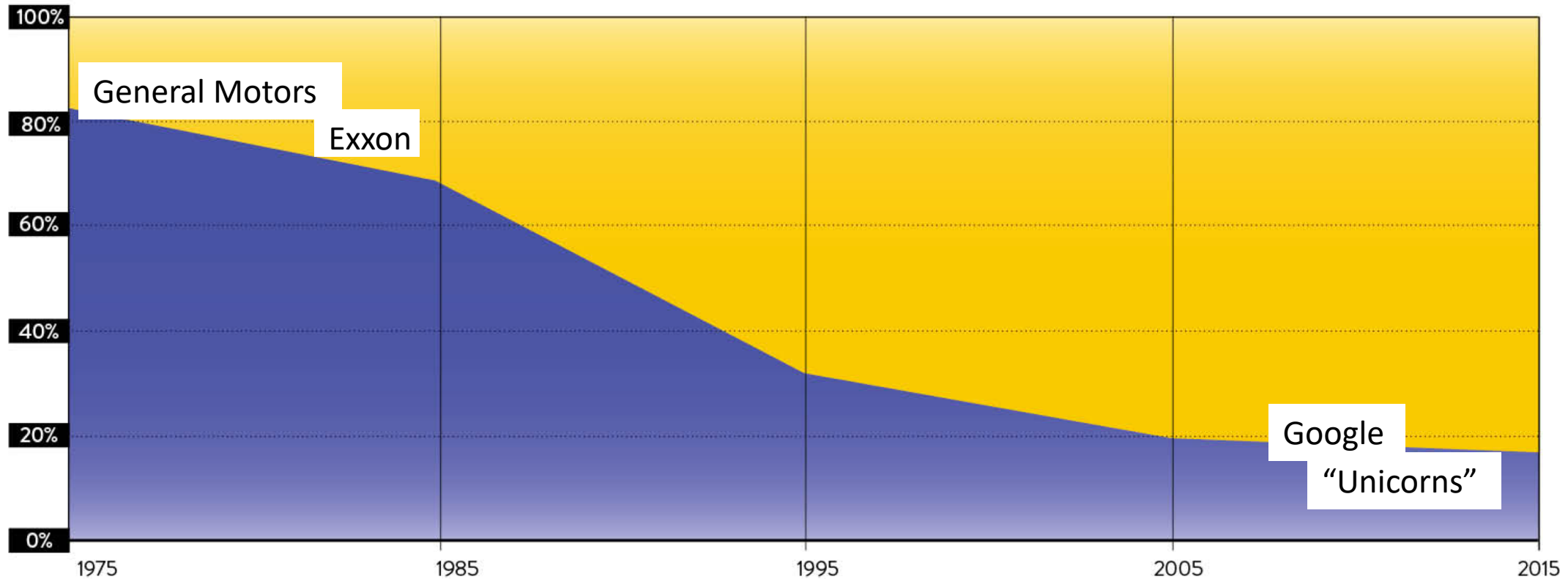


Coffee? Or *Coffee Time*?

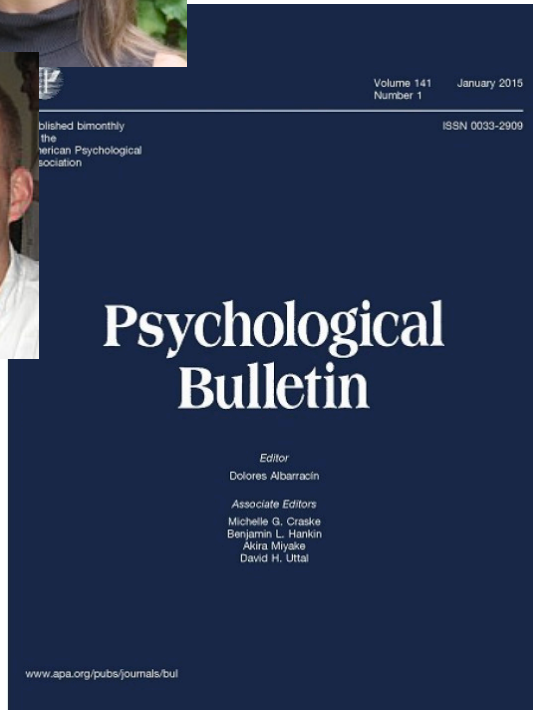
Personalized and Experiential

COMPONENTS OF S&P 500 MARKET VALUE

● Tangible assets ● Intangible assets



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- Intrinsic motivation is more important for performance in creative work than in routine work (quality vs. quantity).
- The salience of incentives is critical; quality work and performance are positively influenced by extrinsic rewards.
- Ideally, extrinsic rewards should be indirect, meaning their link to performance is implied, not explicit.
- On average, people who enjoy their work will perform better than those who don't but they will perform even better when indirectly incentivized with tangible and intangible rewards.
- Chosen and presented well, extrinsic rewards don't distract from or "crowd out" intrinsic motivation. Rather, they appear to enhance it, having the psychological effect of amplifying a person's existing interest in doing things they like to do.



The Cultural Accelerator Effect



Strong Firm
Identity Increases
Value

Rewards for a New World

Then

Tangible Value

Routine, Repetitive Work

Highly Fungible Labor

Satisfied & Motivated
Extrinsically

Explicit, Contingent
Incentives



Now

Intangible Value

Non-Routine, Complex Work

Incredibly Difficult to Recruit & Retain
Talent

Satisfied Extrinsically, Engaged
Intrinsically

Subtle Rewards, Post-Behavior
Appreciation, Recognition



Summary of Effective Incentive Design

- People may say they prefer cash but will perform significantly better when incentivized with non-cash rewards
- Choice in reward is important. Part of incentives best practice is including a range of non-cash rewards.
- Use gift cards, even open ones work better than cash, but consider closed, branded cards, chosen based on knowledge of the recipient and how they like to reward themselves.
- Open gift cards are not effective as closed cards because they are likely to be viewed as compensation rather than recognition for good performance.
- Communicate time and effort in the presentation of your rewards. As the saying goes: “it’s the thought that counts” This bears out in the results of the experiments discussed today, at least in terms of conveying time and effort in the presentation of the rewards.
- Consider apportioning a greater percentage of your incentives budget to experiential rewards, including gift cards for experiences like dining out, sports events, massages, etc.



Summary of Effective Incentive Design

- Good incentive design should also take into consideration the framing of the reward.
- Where you aim to motivate workers performing non-routine, complex, and interesting/creative work, use indirect, extrinsic incentives *implicitly* tied to performance. Make the incentives known, but let employees make their own connections. In other words, attempt to reward behavior without overly leveraging the incentive, don't attempt to use rewards to micromanage.
- Integrate your work with other elements of workforce management – engagement initiatives, for example – to foster a talent culture. The 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.

Caveat: None of the above may apply to anyone who really needs the cash. When people *need* cash (or a cash equivalent) what they may *want* is of secondary importance. Reward them with cash, grocery cards, etc. despite the flaws.