


Cash vs. Non-Cash Incentives: Why Use Non-Cash?

A WHITE PAPER FROM THE SITE FOUNDATION

Some economists believe that non-cash gifts are inefficient.[1] The argument goes like this: Since it is impossible for the gift-giver to know exactly what would give the recipient the most pleasure, the giver should just give the person cash and let them choose what to purchase. This argument is often heard in the reward and recognition sphere as well. Many managers seem to believe that employee satisfaction will be maximized if they are allowed to freely choose their incentives. This belief of managers is often reinforced by employees themselves. Raise your hand if you have ever heard (or said) this: "Those travel and merchandise awards look great, but we have asked our employees and they told us they want cash." If this belief was followed, it would indeed be bad news for an industry that sells over $75 billion of non-cash incentives.[2]

However, non-cash incentives continue to be used and drive positive business performance. So what's going on here? Psychological research can explain this apparent paradox. This white paper will outline some of that research and show why non-cash incentives deserve a spot in firms' motivational arsenals.

First, there is psychological research that shows that people, as decision makers, are really two people: a "should" person and a "want" person. The "should" person is the one that tries to get you to fit into those "skinny jeans" while the "want" person is the one that would really like that big piece of chocolate cake for dessert. The "should" person is the one that puts money in a savings account for retirement while the "want" person would really love to watch the NBA championship game on a 52" big screen TV.[3]

Another way to describe the two competing personalities is that the "should" person is the "planner" and the "want" person is the "doer." This planner personality is locked in an endless struggle to control the more impulsive "doer" personality.[4] To gain some control, the planner will often take steps to pre-commit to a specific course of action in an attempt to spend money responsibly. One common method of doing this is by providing inviolable budget constraints on the more myopic "doer." In this case, the planner provides a rule whereby the doer can only spend a certain amount of money on "frivolous" purchases, as defined by agreement between the planner and doer. This is why when someone is asked which incentive they want, the planner takes charge and says "Show me the money." But companies looking to motivate performance want to get at the "doer" personality, as it is he or she who will strive to earn a reward.

Desired Results from Incentive Programs

The key question to ask is, "What is the intent of an incentive program?" I would propose that the firm wants the answers to the following two questions:

1) "How can I encourage the best job performance from my employees?"

2) "How can I encourage commitment to the organization and engagement?"

The answer to those questions may diverge from what the employees tell you they want.

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How Non-Cash Incentives Work on Job Performance

- **Justifiability**—Items that employees would not purchase for themselves increase the value of the incentive and lead to more effort.
- **Social Utility**—The knowledge that others will know about the incentive (trophy value) increases the value of the incentive and leads to more effort. Ease of discussing non-cash rewards enhances this value.
- **Salience**—Highly hedonic items such as the ones used for non-cash incentive programs (high end merchandise and travel) are thought of more frequently than cash awards. This frequency of thought increases the value of the item while at the same time eliciting more "in the moment" effort.

Job Performance

Most motivational scholars believe in the motivational theory of Expectancy. That theory states that effort expended is a function of valence, expectancy, and instrumentality.[5] Expectancy represents the believed likelihood that effort will lead to the achievement of a goal. Valence deals with the value of the reward that would be received if that goal were achieved. Instrumentality represents the belief that the reward will actually be forthcoming from the individual that controls it. This relationship is multiplicative; in other words if any of them is zero, no effort will be forthcoming. The relationships are also increasing, in that as any of these pieces increase, overall effort will increase.

Earlier in this paper, you were introduced to the "want" self, the hedonistic part of our personality. Think of the three-year-old in the check-out line crying about candy. While we may have learned to control the crying, that three-year-old still lives inside all of us and still wants that candy. The only thing that may have changed is the "type" of candy that personality wants. Now that personality wants hedonic items, items that are characterized by affective and sensory experiences.[6] To a large extent, that personality wants high end merchandise and travel experiences. So, while cash is "practical" and the preferred incentive of the "should" self, it is boring to the "want" self and will not engage the employee in their work. If a cash incentive is provided, the clever and intelligent "want" self, knows that the "should" self will control how that money is spent, and the "want" self won't care much for what is purchased. Therefore, the "want" self will not be engaged in pursuing the incentive. This argument is at the heart of what I have called *justifiability*.

Justifiability

People generally search for reasons to take actions. As a species, we like being able to explain the things we do to ourselves and to others.[7] This is one reason that a preference for cash incentives is often stated by employees. Receiving a cash reward scores high on justifiability because it can be used for almost anything; including those very responsible things that the planner would like us to do such as buy groceries or braces for the kids. A trip to the Bahamas, while very desirable, is harder to justify as many would consider it frivolous, something the "should" self desires to avoid at all costs.

Even though the purchase of such a frivolous thing would be difficult to justify, there is no need to justify taking the trip if it is earned through hard work. If the company were to award this trip to the employee, the trip triggers less guilt. After all, they didn't need to purchase it; they got it for "free." This guilt-free consumption increases the value of the award, increasing its usefulness as an incentive.

Note that concerns of justifiability will do two things. First, it will increase the likelihood that employees will tell management that they prefer cash. At the same time, it makes non-cash more valuable because the consumption does not need to be rationalized. So, while it is probably a good thing to listen to your employees, justifiability suggests that they may not be telling you all you need to know. Hearing employees say, "We want cash" is a poor reason to avoid providing non-cash incentives. A company wants to use that which will drive the best performance. Since a non-cash incentive has increased value due to justifiability, it is an effective incentive.

Social Utility

Employees become happier when their good performance can be seen by their peers. This is one reason that awards are often given in social settings. Cash is not as good a carrier of this type of utility due to societal proscriptions regarding bragging about money. Non-cash items such as merchandise and travel do not have that same problem. It is perfectly acceptable to point to a travel reward and say how great it was to get it. In fact, one additional benefit of non-cash rewards is that others may even broach the subject themselves, alleviating the need to bring them up yourself. Peers, families and friends will ask about a trip, and in particular, how you earned it. This becomes an indirect way to talk about good performance.

Another benefit of non-cash awards is often called "trophy value." There is a tangible artifact that is left behind that reminds employees of the work that led to the item's receipt, but it also conveys the belief that the company cares about the employee. This can lead to positive reciprocal behavior in support of the company.

Salience

The first law of focus says, "What you think about expands." This means that the more something is thought about, the more "mind share" it will occupy. The more mind share allocated to something, the more valuable it becomes. This is what social psychologists have called the "mere exposure" effect. Essentially, people's liking of something increases the more it is thought about.[8] Therefore, as employees think more about the item they might earn for effort, the value of that item increases, increasing effort. People familiar with motivation believe that effort expended is a moment by moment comparison of whether additional effort is somehow "worth it." In other words, if the incremental value of the effort exceeds the cost of that additional effort, then employees will provide it. If the value of an item is increased

by thinking regularly about it, then the marginal benefit of offering additional effort is increased. This makes effort "in the moment" more likely. Past research has shown that employees do spend more time thinking about non-cash incentives relative to cash incentives. This same research has shown that this led to an increase in performance among call center employees.[9]

Organizational Commitment

The previous sections discussed short term benefits that will accrue to the use of non-cash incentives as compared to the use of cash. This section outlines another desirable outcome for firms: organizational commitment. In general, this is the psychological force that binds an employee to their organization and causes them to want to remain a member of that organization. Organizational commitment reduces the intent to leave as well as absenteeism and deviant behaviors against the company (theft, etc.).

Scholars have identified three types of commitment to organizations: Continuance, Normative and Affective. Continuance commitment is the weakest form of the three, and can be described as the "need to stay." In other words, employees that are committed in this way feel tied to the organization for economic reasons. It is in essence too costly to the employee to leave the company. Normative commitment represents a feeling of an obligation to stay, either out of general work ethic or due to some treatment the company provided. Here employees stay because they feel that they should stay.

The final type of commitment identified was affective commitment. This can be thought of as a desire to stay with the company due to some emotional tie to the company. Here, employees stay with a company because they want to. There are a number of positive consequences associated with affective commitment. The obvious being the increased desire to stay with the company. However, affective commitment provides additional benefits beyond retention. Employees with high levels of affective organizational commitment will engage in what are known as "citizenship behaviors," performing above and beyond what is required by the job. Employees cannot be made to provide this behavior nor can they be fired for not engaging in it.[10] Thus, the provision of non-cash incentives is an effective way to encourage affective commitment, which will in turn lead to more of this behavior.

While there are many antecedents to affective organizational commitment, this section will discuss how these long term relational benefits can be obtained through the use of non-cash incentives.

Organizational Support

People like to feel valued. This is true in both personal relationships as well as organizational ones. A large number of researchers have studied a concept they call "Perceived Organizational Support" or POS. This is essentially the degree to which an employee feels valued and appreciated by their organization.[11] Employees who feel appreciated are more affectively committed to an organization. Non-cash incentives have been shown to be better at leading to increased feelings of support for the reasons outlined below.

Manager Discretion

Employees like to feel valued but the behavior that makes them feel valued needs to be viewed as discretionary. In other words, employees know if things are provided because they have to be. For example, compliance with OSHA for a safe workplace does not count. While a low stress and low pressure environment might lead to high levels of job satisfaction, they do not necessarily make the employee feel obligated to the organization. Cash is frequently viewed by employees as something they are "due" or "entitled to." In fact, research has shown that if there is no contingency in cash bonuses, they tend to be thought of as compensation.[12] Non-cash incentives are less likely to be viewed as entitlements and therefore employees believe that recognition for good work is at the discretion of the organization.[13]

Memory

As discussed earlier, non-cash incentives come with physical artifacts that will trigger memories of the performance that led to their receipt. This can lead to replication of that past performance. In addition, it can cause the employee, to remember that the firm showed some level of support to the employee; signifying that this employee is a valuable member of the organization. Each time the employee remembers a trip or uses a merchandise item, they will be reminded of the recognition by the company. This leads to increases in employee commitment to the firm thereby lowering turnover and absenteeism and increasing the provision of behavior "above and beyond" that required by the job.

How Non-Cash Incentives Work on Organizational Commitment

- **Organizational Support**— As employees feel more valued as a member of the organization they reciprocate with increased affective organizational commitment.
- **Discretionary Behavior**— Behaviors undertaken that are under the control of the company as opposed to legally or contractually required increase feelings of organizational support.
- **Management Relationship**— As the relationship with direct managers improves and becomes more of a social exchange, the feelings of value increase.

Relationship with Management

Employees form different relationships with their managers, ranging from low to high quality. Low quality relationships tend to be viewed as more economic in nature, an exchange of service for money. Higher quality relationships are viewed as more social, including recognition and mutually beneficial exchanges. There is a high correlation between the quality of the relationship with

one's immediate manager and how valued they feel by the organization. This tends to become more important in situations where the firm is "distant," making the managers more relevant. This is the case in many branch based service businesses such as banks. As the relationship with the "boss" improves, the employee feels more supported by the organization.

Non-cash rewards work better at increasing the quality of this relationship as they are frequently looked at as gift exchanges rather than money for services. This provision of non-cash incentives is much more likely to be looked at as discretionary (see above) and therefore is much more likely to improve the relationship between the employee and manager. This relationship, while distinct from perceived organizational support, is highly correlated with it.

Summary

In no way should this article be taken to suggest that cash does not have its place in motivational programs. Cash is the accepted medium of exchange in most economies and therefore employees must receive cash as a majority of their compensation. However, the type of incentive used should be carefully thought out taking into consideration the research outlined here. Non-cash can work better than cash in instances and will lead to distinctly different outcomes.

About the Author

Dr. Jeffrey received his Ph.D. in Managerial and Organizational Behavior from the University of Chicago in 2003. His current research interests revolve around the use of incentives in organizations, both for employees and for customers. In particular, he is interested in tangible incentives: high-end merchandise and travel. His most current project is leading up a research team exploring the motivational events industry. Dr. Jeffrey teaches Organizational Behavior, Negotiations, Decision Making and Business Ethics to both undergraduate students and MBA students at Monmouth University in New Jersey. He can be reached at sjeffrey@monmouth.edu.

Footnotes

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