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Choosing Incentives With Science, Not Fables

Ditching the myths and getting up to speed on the science of incentives is easy

Perhaps you have an employee rewards and recognition program in place, and you're trying to decide which rewards to offer. Or maybe you're thinking about trying a program for the first time and are a little overwhelmed by the various options. Or you might just feel the need to switch up your current program and are looking for alternatives to the usual employee incentives.

No matter what your goal is, your decision about which incentives to use is critical. As such, it should be guided by the best science on human motivation. Unfortunately, most managers take a less scientific approach. Many simply thumb through a catalog or search the Internet for what they would find desirable. Or worse, they rely on anecdotes and marketing pieces to reaffirm what they already want.

Here's the problem with this approach: The most recent psychological research shows that human beings are horrible at predicting which sorts of things we would ideally appreciate in the future. And even when we do predict what we ourselves would want, projecting our personal tastes onto a diverse workforce isn't necessarily a good idea.

The good news is we don't have to rely on folklore and guesswork to find the appropriate sorts of incentives for employees. There's a considerable body of research about what motivates us, and how to apply it to employee incentives in the workplace. But before we reveal what the science of human motivation has to say about incentives choices, it might be good to look at the common wisdom.

Four fables to forget when exploring employee incentives

1. **"If you want to change employee behavior, reward wanted behaviors and penalize unwanted behaviors. Use enough carrots and sticks and people will change."**

   But the research shows: Though rewards and penalties work well to control the behavior of laboratory animals, human behavior isn't so simple. We're complex creatures, and things like context[1], social standing[2] and fairness[3] shape how we respond to rewards and disincentives. Incentives programs need to focus on things like recognition, presentation and timing, as well as the actual incentives themselves.

2. **"A dollar is a dollar; employees will treat any incentive (direct deposits, cash, gift cards, etc.) as 'money' and value them equally. So it doesn't matter how you reward employees, as long as the face value is there."**

   But the research shows: A dollar is not a dollar. Employees treat different kinds of incentives differently, and might prefer one type over another of equal "value."[4]

   Take cash in the form of a direct deposit, for example. This kind of reward often ends up being spent on essentials, and so gets lost in the monthly budget.[5] The best incentives grab attention, evoke positive feelings and manage to be memorable.[6]

3. **"High performers don't need (or rather, shouldn't need) 'extra' motivation."**

   But the research shows: High performers are good at motivating themselves, but can quickly tune out if not given positive feedback and personal engagement. This is why polls show that on average, high performers are actually less engaged than lower performers.[7]

   Fairness is a factor here, too. If low performers are given incentives to boost their performance, high performers will also want them. In fact, they might feel entitled to more or greater incentives. If they're not offered, your high performers can become highly demotivated.

4. **"So-called 'intrinsic' motivators (autonomy, skill development, sense of pride) work best. Extrinsic rewards can actually diminish one's internal motivation."**

   But the research shows: There's a complex interaction between external rewards and internal motivation. While there are some specific circumstances where external rewards can diminish internal motivation, there are many cases where both can be used to successfully motivate employees. And in some cases, the external motivator can actually enhance the internal ones.[8]

   Things like autonomy and the opportunity to develop one's skills are important. But external rewards can still be effective incentives when couched in the right sort of program.

Four qualities to look for in effective employee incentives

Properly structured incentive programs can increase employee performance by as much as 44 percent[9]. The illusion that these programs often fail to motivate stems from the fact that only a small number of programs use the right incentives, with the right frequency, for a long enough time.

So what are the qualities of a good employee incentive? The right incentives should be:

1. **Memorable.** If you want to change behavior, it's not enough to provide monetary incentives and invoke good feelings. Employees have to "remember the good times." If they can recall the occasion of a reward more easily, they'll draw the association between work and those positive emotions more frequently.[10]

Experiences are a great way to do this, because they engage multiple senses and create an emotional reaction that you can't get from other rewards.[11] More than that, experiences help to create stories, which the human brain is wired to compose, remember and share. A reward or recognition ceremony that lends itself to a story is more likely to be retained.

Displayable rewards ("trophies," if you will) also help. Cognitive science has shown that our memories aren't simply recorded in our heads the way a movie is recorded on a DVD. Much of our memory is aided and even shaped by our physical environment and the things in it[12]. Rewards can be part of that environment, serving as a constant reminder of the recognition the employee has received. Plus, they're a visible sign that management values good work.

Don't discount the element of surprise with rewards, either. Would a handwritten note or a plaque be memorable if you got one every day, for every little thing you did? Of course not. They're more special when unexpected.

This element of surprise has a very powerful effect on memory. We quickly forget routine daily details like what we had for breakfast or where we put our keys. But few would forget a surprise birthday party or an unexpected gift from a loved one. Rewards and recognition mean more, and are talked about more, when employees aren't expecting them.

2. **Tangible.** Excuses to indulge in luxuries are a powerful motivator. This is at the core of what's known as "justifiability theory." Justifiability theory recognizes that people plan how to spend their money, and unnecessary purchases beg for justification. The larger the purchase, the better the reason needs to be for spending that money. This means that cash rewards get spent on utilitarian things like bills or household necessities, quickly losing their reward luster.

   But tangible incentives are seen as luxuries, so people tend to value them more as rewards. For example, an employee might never save up for a family vacation to Hawaii. But that same employee will work significantly harder to earn that vacation as a guilt-free extra. A well-designed rewards program makes the luxury inevitable while removing the guilt of enjoying it.

   The one catch is that "luxuries" depend heavily on a person's individual tastes. This makes discovering the ideal award more difficult. The best rewards blend the tangible with the flexible, allowing the employee to choose his or her own indulgence.

3. **Meaningful.** Meaningful incentives show that management cares. This not only has long-term effects on the company culture, but can provide short-term boosts to productivity as well.

   This effect actually has a name: the Hawthorne Effect. Almost any change to the work environment, even a minor one like changing the lighting, can result in a small boost in productivity. It doesn't even have to have a direct effect on the tasks at hand. The change comes because employees become aware that management is taking an active interest in what they're doing.[13] If small changes can spur a small boost in productivity, highly meaningful changes can produce large boosts in average productivity.

   Meaningful shouldn't be confused with overly personal, however. Meaningful means rewards that take the individual person's happiness into consideration. Employees don't expect their employer to purchase super-personal gifts, and would likely find the practice uncomfortable. Rewards have to navigate a course between too personal (think jewelry or body spray) and not personal enough (cash or stock options). The right incentive has personal meaning in the most socially appropriate way.

4. **Frequent.** Rewards not only motivate employees to work harder; they also provide an opportunity for feedback on performance. A well-designed incentive program includes crucial decisions about which behaviors should be rewarded, and how often. These expectations should be explained in the context of the organization's goals. The rewards then act as honest feedback about the employee's performance, and positive behaviors are reinforced. Smaller, more frequent rewards serve to fight negative emotions such as envy in the workplace.[14]

   Frequent rewards also avoid decreasing marginal return. The average employee can easily see a huge difference between a $10 gift card and a $50 gift card. But few would notice or care about the difference between a $2,000 vacation package and a $2,040 package. The extra $40 does nothing to enhance the more expensive package; it's lost on the employee. But that same $40 difference is not lost when it comes to the less expensive gift cards.

   This means that smaller, more frequent rewards provide much more leverage per dollar spent. Every extra dollar put towards such incentives will have a much larger impact on the employee and their behavior.

Closing thoughts

In the employee rewards and recognition industry, a lot of stories circulate about the most effective incentives. Some of these contain a kernel of truth, but usually they're little better than fables without sound scientific backing.

So how do we choose incentives with science, instead of fables? The concrete steps depend a lot on your organization's decision-making procedures. Keep in mind:

1. Much of our common wisdom about motivation is just wrong. Be open to incentive programs that challenge that "wisdom."
2. Incentive programs can be very successful, but only if structured correctly. Do your research, and be wary of common program mistakes.
3. While there is no one correct incentive, the best incentives share some qualities in common. Evaluate potential rewards in terms of their being memorable, tangible, meaningful and frequent.
4. Ask questions. Lots of them. The truth always has a way of rising to the top.

1. *The Role of Work Context in Work Motivation (Wright 2004)*
2. *Getting More Work for Nothing? Symbolic Awards and Worker Performance (Kossfeld and Neckermann 2011)*
3. *Reward Fairness (World at Work 2011)*
4. *The Benefits of Tangible Non-Monetary Incentives (Jeffrey 2009); also Incentives, Motivation and Workplace Performance: Research & Best Practices (Incentive Research Foundation 2002)*
5. *Wirthlin Worldwide Survey (1999), reported in Scientific Studies Highlighting the Benefits of Tangible Rewards Over Cash*
6. *Small Rewards Can Push Productivity (Gale 2002)*
7. *Job Performance Not a Predictor of Employee Engagement (Murphy 2013)*
8. *Negative Effects of Extrinsic Rewards on Intrinsic Motivation: More Smoke Than Fire (Ledfort, Garhart, Fang 2013)*
9. *Incentives, Motivation, & Workplace Performance (Incentives Research Federation)*
10. *Thanks for the Memories: The Effect of Reward Recall on Perceived Organizational Support (Jeffrey, Silbert and Nummelin 2007)*
11. *Emotion Can Heighten Memories (Nauert 2012)*
12. *Natural Born Cyborgs? (Clark 2001)*
13. *The Hawthorne Effect (The Economist 2008)*
14. *Managing Envy and Jealousy in the Workplace (Dogan and Vecchino 2001)*

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