

Cash or Carry? Does money work as an incentive?

By Dawn McCoy, MBA and Brooks Mitchell, PhD

What makes employees tick? How can you get the most out of your people – consistently? As any good manager will tell you, rewarding employees for their efforts has a direct positive impact on productivity and ultimately, on the bottom line. An effective reward system can motivate employees, reduce turnover, improve morale, and in doing so, provide the organization with a competitive advantage. The question then becomes, “What kind of rewards are the most effective, produce sustainable behavioral change and give organizations the biggest bang for their buck?”

Years ago, when employers were just testing the waters of the world of incentives and for some time thereafter, cash incentives were the most common. People were initially given cash payouts for meeting goals or good performance. These bonuses, however, soon lost their reward power as people came to *expect* the extra money and essentially included the “reward” in their salary expectations. A classic example would be Christmas bonuses many companies still use to supposedly reward employees for effort expended during the year. Employees eventually come to expect the bonus every year and don’t link it to performance. Further, as many a manager can attest to, if an employee receives a lower bonus than the previous year, the onus is often on the manager to explain the reason why to the employee, who considers it a *decrease* in compensation!

Employers began using merchandise rewards chosen from catalogues for incentives, and as a result, the incentive merchandise industry has now grown into a multi-billion dollar business. The theory is this provides a bigger bang for the employers’ buck and also allows employees to choose their own rewards suggesting employees are more likely to be motivated. Over time, however, as most companies have discovered, people tire of the rewards offered in the catalogues and the reward system loses its effectiveness. As David Lewenberg, Vice-President of Genumark, a promotional product distributor, says, “Human nature requires constant change.”

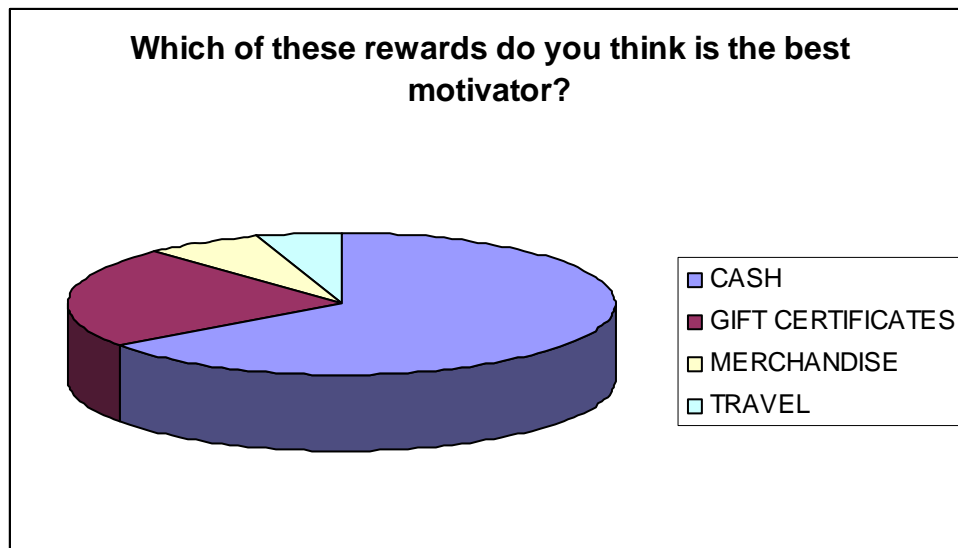
This problem has been exacerbated by the Internet because employees now have the ability to shop online and compare the value of the catalogued merchandise with prices of similar goods. Unfortunately, all too often, similar items or higher quality items are available for far less than the reward is supposed to worth, leading to dissatisfaction and a belief that neither employee or employer are, in fact, getting a bigger bang for their buck.

Where does money fit in on the hierarchy of employees’ needs and wants? The literature and research is truly divided on this issue. Some surveys suggest money is low on the scale of what people want as rewards. *Managers* surveyed in these studies typically rate cash especially low as a performance motivator. For example, a 2003 survey conducted by the Incentive Federation reported that 60% of respondents agreed that travel or merchandise is preferable to money as an incentive. This same survey revealed that 61% of incentive program managers felt they could build a more effective incentive program with merchandise as opposed to cash. Another survey sponsored by American Express Incentive Services reported that only 25% of the respondents who had ever received an incentive award listed cash as the best job performance reward they ever received. The conclusion one might draw if only reviewing these surveys would be monetary rewards are not the

best way to motivate employees. Lewenberg agrees, “We generally feel the online programs and gift cards are the flavor of the month rather than a long term change.”

That leads into the next point – what is money? Is it just cash or is it anything that can be used as cash? Perhaps we need to redefine money in terms of incentive programs. In today’s highly technological world, money is no longer confined to cash in hand. It can mean debit cards, gift certificates, and the latest innovation – stored value cards. So when employees suggest they prefer a gift card to merchandise, this is a form of money – it can be used to buy whatever they like.

While there are some surveys that indicate otherwise, there are other surveys where the opposite premise – money in its various forms is desirable as a motivator – is supported. For example, a 2005 survey by HR Innovator reported results which strongly *support* cash as an effective incentive award. Interestingly, 65% of the respondents preferred cash as a motivator and another 23% preferred another form of cash, gift certificates.



Source: May 2005, HR Innovator, <http://www.hrinnovator.com>

With research results that are at best, confusing and mixed, as a manager interested in influencing employee performance, choosing cash or merchandise as a reward can be somewhat of a dilemma. Perhaps we should review some of the common problems with both systems to refresh our memories.

Historically, the biggest problem with using money as a reward has been that it was seldom *immediate* or directly related to the behaviors it was supposed to reward because it was usually paid out in a bi-weekly or monthly pay check or one time during the year. Research shows for a reward to be effective and sustaining, it needs to be *directly related* to the desired behavior. This is best achieved by rewarding the performance *immediately* after the behavior occurs. While new technology has allowed easier measurement, better accounting and real time reporting of performance results, in the pre-high tech world, was not easily measured or reported and therefore

not easily linked to the accounting system. Therefore, many times, employees did not know what rewards they were entitled to leading to a lack of engagement in the incentive program.

Reviewing these problems, it is no wonder that employee incentive programs moved away from cash and toward merchandise and recognition items. But, as many incentive program managers will tell you, merchandise rewards also pose significant problems, some of which are the same as with monetary rewards. For example, the merchandise almost always comes *far after* an employee's rewardable behavior has occurred. In addition, merchandise incentives are often large items that employees have to "save up" for and may seem unattainable or far in the future. This again leads to the problem of relating today's behaviors to tomorrow's rewards. Rewards also should be *meaningful* to the employee and often the merchandise choices do not have something that appeals to each employees.

Using merchandise as a reward also requires inventory and most companies simply don't wish to maintain large inventories of merchandise to pass out to employees for incentive programs. Consequently, a billion dollar industry has evolved over the last several years of companies who provide catalogs with thousands of prizes for redemption. Although this seems like an easy solution, it leads to another more significant problem. That is, research shows almost all catalog merchandise is *perceived* as being overpriced or outdated. For example, an item which can be redeemed for \$100 in incentive money or points might be purchased for \$50 or less at a local discount store and probably even for less than that if a person wanted to try to buy it on eBay. Ironically, what was meant to be a motivational to the employee may very well have become a demotivational, because the employee now feels like he might have been ripped off.

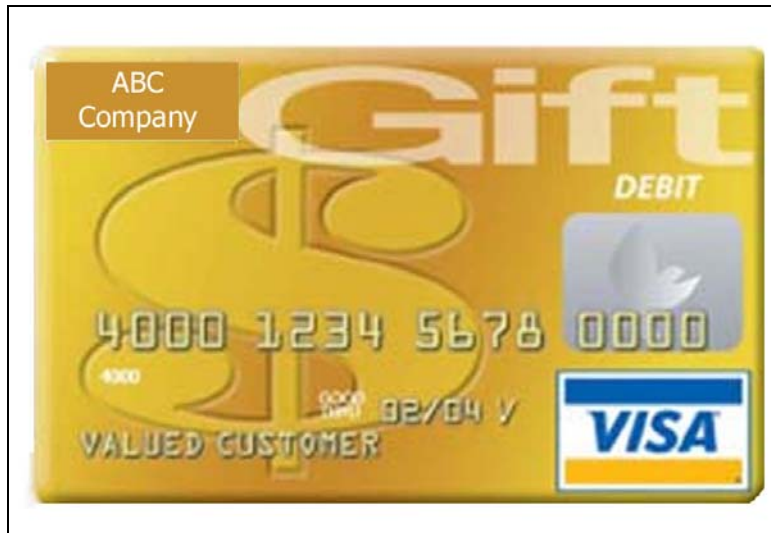


Another problem is that merchandise is frequently a projection of what *managers* like or would want, while ignoring most of their employees who are operating on different levels of the organization. This patronization on the part of management or in other words, "management knows what's best for you," doesn't go far in motivating employees. As noted, for an incentive system to be effective, the rewards offered must be meaningful to the *employees*, not to management or just some employees. A classic example is an employer who uses football tickets to reward salespeople

for high sales. The salesperson that would rather see a play or a movie will not be motivated by the reward offered and therefore it will not have any impact on his or her performance.

Is there a middle ground? Can't employees be awarded with money and use this to buy the merchandise or rewards *they* want without diluting the effectiveness of cash as a reward? While clearly advocating the use of merchandise as an incentive, Lewenberg does say, "I think it is a combination of recycling old combined with really new stuff. Clearly technology has supplied a tone of change." Perhaps, with changes in technology, managers won't have to choose between cash or merchandise and still have an incentive program that provides meaningful rewards to employees.

Online programs such as Snowfly Performance Incentives have changed the face of the performance incentives industry by reducing the effectiveness of catalogue rewards systems but also by providing the means to allocate cash rewards in different ways. *Money* can be paid out in many forms other than on the pay check including direct deposit, gift certificates, debit cards, stored value cards such as credit cards and PayPal, and often cash does not actually change hands. The use of these alternative ways to allocate cash rewards means monetary bonuses are no longer distributed along with the regular pay check. Managers now have the ability to reward employees with money *immediately* after the desired behaviors have occurred and as good managers understand, instant acknowledgement is a powerful motivator.



According to Stevi Hansen, a Vice President of Business Development at American Express, "Amex distributes a plasticized gift certificate that allows the reward earner to spend anywhere AMex is accepted. This reward allows the reward earner to get whatever they want, because everyone is unique. The card ordering is automated; the end user client can brand it with their company logo or branding (wallet real estate)." Stored value debit cards are a new way of giving instant cash for points earned. Cards can now be given to employees and if there is a point system, points can instantly be converted to money on the cards.

If, for example, the card happened to be a VISA or AMex card, the employee could *immediately* redeem the points at any place that accepts VISA or AMex. For instance, an employee could earn \$20 worth of points, go to their account on the Internet to make the conversion, and instantly redeem these points at a restaurant or an ATM machine. The card itself is a visible, tangible and separate instrument that helps the employee relate their performance to the incentive.

Another option, in addition to stored value cards, is that organizations can now offer employees the option of transferring their points directly to cash balances on PayPal. Many employees take advantage of this reward by going directly to eBay to redeem their points. The bidding element of eBay adds a dimension of fun to the incentive program as well. The Snowfly system makes use of stored value cards, PayPal, gift certificates, but also takes technology one step further and adds a gaming component to the incentive program, making it fun to redeem points.

Studies show companies with an employee reward system achieve higher sales levels and productivity than their cohorts without similar systems. The downside is employee incentive programs tend to get old fast for many different reasons. Employees get bored. The rewards don't change. The rewards don't reflect what the employees want. For any number of reasons, keeping motivation up is an ongoing job and employers are constantly looking for the next great incentive – something employees want and that will motivate them to achieve organizational goals.

New technology has made it possible to give cash a facelift, make it appear more like merchandise, but allow employees to choose what merchandise they want, and thus make money more acceptable and effective as a human motivator. Technology has allowed people to perform and *instantly* be rewarded with cash and then use this to get what they want as a reward. Given the current state of incentive programs, perhaps it is time to revisit the use of money as a performance incentive and consider using money as motivator in conjunction with tangible (merchandise like) stored value and PayPal cards which allow recipient choices. Perhaps we can have our cake and eat it to. Why have just cash **or** carry? Why can't we have both?

About the authors:

Dawn McCoy is a Certified Human Resources Professional and has an MBA. She teaches University courses in Business and Human Resources and is a freelance business writer. She can be reached at e-lynx@shaw.ca.

Brooks Mitchell, PhD is the founder of Snowfly Performance Incentives (www.snowfly.com), and developer of a game-based approach to performance incentives. He is a professor of Business at the University of Wyoming. He can be reached for more information on the Snowfly system at bmitchell@snowfly.com.