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QUESTION THE ANSWER

Money Motivates but Tangibles Drive Performance

Right Answer, Wrong Question

As people become more critical to a company's success, the overall reward package designed to attract, retain and motivate them takes on more significance. Once a company has set a competitive pay scale and created a comprehensive benefits package, the real work begins – keeping employees motivated. Without question, money motivates. But a sales incentive strategy that begins and ends with cash will quickly run out of steam and prove ineffective at attracting, emboldening and retaining top sales talent. What does your sales team want you to offer a incentives? It stands to reason that they know what will motivate them. Yet when selecting incentives that will drive performance, "What do you want?" is the wrong question to ask. Ultimately, a sales manager doesn't want to know what incentives salespeople want as much as will lead to peak performance. Recent research shows that what employees say they want and they actually work hardest to receive do not a match up.

In a study conducted at the University of Chicago, staff members came to a behavioral laboratory and engaged in a word game in pursuit of an incentive group of employees was given a cash reward in exchange for good performance second group had the opportunity to earn therapeutic massages of varying lengths depending on their performance. These rewards were based on market value that the comparison was fair. After performing their task, the group that worked in pursuit of the non-cash incentive was asked their level of agreement with the following statement: "I prefer to receive the cash value of the prize rather than the prize itself." A strong majority (78 percent) said that they would rather receive the money. This is surprising, as it is consistent with economic theory and the "option value" of money. Since a person can choose to purchase whatever they want the most rational to choose money. However, the study found that while most people stated a strong preference for cash, their performance was markedly better when they were in pursuit of the noncash incentive. Those participants working toward a cash incentive boosted their performance by 14.6 percent over those who did not receive any incentive for performance. This is a nice uplift, one that many companies would gladly invest in to gain that level of performance improvement. However, those who were working toward a non-cash incentive improved by percent relative to the no incentive condition, a significantly better improvement than that created by the cash incentive. For the same amount of money, a non-cash incentive created more than twice the performance improvement!

The Power of Pampering

The reason for this difference is subtle but important. When faced with a choice between incentives, your employees ask themselves "Which of these awards do I prefer?" In contrast, when determining how hard to work, employees ask themselves "How hard will I work for this particular award?" While economic would suggest that the answer to these questions should be the same, psychological theory provides reasons why they might differ. One reason has to do with the justifiability of the award for which employees working. If the person considers the item as a luxury or a "splurge," then he or she might have trouble justifying its purchase. In this case, the ability to earn the award in exchange for hard work becomes a way to obtain it without any feelings of guilt. Thus, a salesperson is more likely to expend extra effort to earn that sort of incentive it's likely to be the only way of obtaining the item.

In fact, this was the main cause found for the inconsistencies between preference and performance in the massage or cash study. The people working towards non-cash reward were asked their level of agreement with the following statement: "It would be hard to justify purchasing a reward such as the one offered as a prize." The level of agreement strongly correlated with performance on the word game task. Those expressing the highest level of agreement with this statement performed 40 percent better than employees not receiving an incentive, those expressing the lowest level of agreement with that statement improved by only 6.7 percent.

This justification explanation should also predict preference for an incentive. When an incentive is placed next to an amount of cash, choosing the incentive becomes psychologically equivalent to purchasing the item for the amount of money being offered. If the purchase of that incentive would be difficult to justify, then the likelihood of choosing the non-cash incentive should increase with the associated "guilt."

This was also found to be true in this experiment. Among those employees who found the purchase of the incentive difficult to justify, 91 percent expressed a strong preference for the cash value of the award. Among those who expressed less difficulty in justifying the purchase of the incentive, 60 percent stated a preference for cash.

This experiment showed an inconsistency between choice and performance. Since managers are more concerned about performance, the findings are quite important. Difficulty in justifying the purchase of an incentive leads to this phenomenon, as shown by the results reported above.

The study suggests that managers would be wise to offer incentives that employees see as luxuries – things they would not generally purchase for themselves. If you ask salespeople what they want, "cash" is usually the instant reply. The right question, however, is "What will you work hardest for?" And whether they realize it or not, tangibles – non-cash "luxury" items – are the answer.

Reader ROI

Incentives and rewards have evolved beyond traditional offerings of pay and health benefits to include learning and development, noncash motivators, and a stimulating work environment. As one HR executive put it, "Rewards are anything that people value: money, recognition, attention, opportunities for growth and working for a good boss." This month's cover story on creating effective sales incentive programs includes these key findings:

■ Research shows that what employees say they want and what they actually work hardest to receive do not always match up

■ An egalitarian approach to recognizing top performance flies in the face of what incentive initiatives are all about, yet many companies continue to stumble over this "peanut butter" approach to rewards

■ Gift cards have become popular alternatives to cash incentives, but the very features that make them attractive also create problems for using them as incentives

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