Avoiding the Cash Trap

Top 10 Reasons Why Cash is Not a Motivator, Incentive Magazine,

by William Flanagan

Enlightened managers in all industries understand the benefits of using noncash incentives to motivate a workforce. That's not to say that cash doesn't have a place in motivation; it does. Companies need to have a competitive salary base to attract and keep good talent. But the one size-fits-all nature of cash can have a negative effect on employee behavior in the long and short term. "There has to be the right mix," says Stephen O'Malley, vice president of the financial services sector at a major performance improvement competitor. "You have to have have a certain level of competitive pay in order to even really have the discussion around using non-cash incentive awards. But I think managers absolutely understand the value of non-cash rewards versus just providing financial rewards."

Assuming you have an attractive salary base, the question becomes, "Why not more cash?" On the surface, it's an easy solution, and one that, according to many studies, gives employees what they most want and need. But in practice, this "easy out" is fraught with danger for companies that rely on it year in and year out. Incentive spoke with industry veterans and came up with a Top 10 list of why merchandise, travel, gift cards and even just a pat on the back work better than cash to get employees striving toward a common goal.

1. Cash Becomes Compensation

The great thing about choosing a monetary reward is that there's no extra distribution method necessary. Your company already knows how to give a dollar amount to employees – it does so every week. If the employee is not set up for direct deposit, the company won't even need to print a check; just roll it into the next pay period, and you're done. But that's just the problem. "Employees view cash incentives and awards as part of their annual compensation," says Michael Dermer, president and CEO of a rewards management company. O'Malley concurs, adding, "Because those dollars just become part of what you take home, there's nothing special about them. [The money] tends to get spent paying bills, and you don't really do anything that's memorable, so there's no lasting effect relative to the dollars that you're putting into those incentive schemes. It just becomes part of that fungible pile of money that you find a way to spend every month and every year."

2. Tough to Take Away

Beyond cash's poor ability to change behaviors, it actually "can be harmful," Dermer says. In good economic times, when everyone is flush and goals are being reached, cash can be easy to give out, but when times are bad, and the cash goes away, employees will wonder where their money went. And studies show that they will consider it "their" money. Discontinuing a non-cash incentive program has a considerably less negative impact on employee motivation than killing a cash program.

3. Buyer's Remorse

A family man receiving a cash award from his company is faced with a tough decision: Put the money in savings or a college fund, or use it to pay bills, or splurge on a family vacation or buy them something special. If he decides to splurge, he may regret the decision later on when a particularly large bill comes due. That quandary can have a negative effect on the overall quality of the award. Many noncash incentive awards are considered luxuries, and earning them through hard work can give employees a sense of achievement – as well as soothing their consciences. "If somebody gave me a few thousand dollars today. I'd be torn as to whether I should invest in my kids' 529s or take everyone on vacation," says O'Malley. "And that's not a comfortable situation to be in. However, if my company says, 'If you exceed your sales goals by ten percent, we're going to take you on an all-expenses-paid family vacation to Hawaii.' I think that's a good thing."

4. No Trophy Value

When was the last time you heard someone brag about the money the company gave him? Merchandise and travel awards have intangible worth to individuals that can significantly outweigh their actual cost. "Cash lacks trophy value and social reinforcement attributes that increase the perceived value of the [noncash] award over cash," says Dermer. O'Malley agrees: "One of the other things that we as a company believe in, and have believed in for a long time, is that the trophy value associated with noncash incentives is just immense."

5. Not Promotable

The trophy value associated with noncash awards can have a positive effect on other employees who didn't reach their goals and take home the award. "You cannot promote dollars," says O'Malley. "But you can promote the heck out of merchandise and travel to really improve behavior and also talk about the people that actually earned the reward. You really can't bring people across the stage and hand out the [giant] golf checks – that's just something that's culturally not acceptable. But you certainly can bring them across the stage and shake hands with them and say, 'This is a President's Club winner, and we're going to take everybody that's up on stage to have dinner on a glacier in Alaska.' The opportunities to do that just don't exist when you're talking about cash compensation." That promotability can figure heavily into the program's eventual return-on-investment (ROI).

6. Cash Satisfies Needs – Not Wants

Cash is easy for companies to give away, and everybody needs it. But for true motivation, you need to give people something they want or desire, not something they need. "Cash is spent on gas," says Dermer. "You won't remember where the money was used, but now it's gone." A trip to Hawaii, on the other hand, generates memories, and a plasma-screen TV is something they'll look at every day for years to come – and remember how they got it.

7. Nothing Personal

Sure, everyone could use more money – but what's special about that? The best rewards cater to a particular group's interests, and having that personal edge makes a big difference in how effective your program will be.

A study of a brewery done by an incentives company looked at the firm's entire mix of reward offerings and tested everyone, from the proprietor all the way down to the people driving the trucks on delivery routes, to find out what awards were most appealing to them. When considering the number of people doing the delivery of the product, cash was not found to be efficient, and the company couldn't justify the ROI on a grand travel program. But merchandise and gift cards offered the company an avenue to motivate everyone, whether that meant delivering the right product mix on time, or sending the right message to the retail outlets.

“With that study, one of the surprising things we found was that this particular brewer had a sponsorship position with NASCAR, and they were using that sponsorship to invite the dealer principals or the distributors to the NASCAR events,” says O’Malley. “We found out through the research we did that that [award] was unappealing to the distributors, but it was incredibly appealing to the people who were driving the trucks that deliver the product. As a result of that particular study, they flip-flopped how they were using that promotional opportunity and invited the people who were more motivated by the experience at that event instead of the people who they originally targeted for it.”

8. One Size Doesn’t Fit All

One argument for cash is that a recipient can use it to buy anything he or she wants. But why not excite their imagination a bit? Merchandise and gift cards allow for personal choice by the recipient, especially when offered in the context of a points-based program with the kind of large, diverse award catalog incentive merchandise suppliers can offer. And given a range of options, the recipient may prefer a less expensive gift.

“There are no average employees,” says O’Malley, “[What is considered] average has become wider and wider around the means over the past few years, and will continue to do so. So you really can’t provide one option and think that it’s going to be appealing or motivating to the entire population.”

9. Managers Prefer Noncash

A recent study of 235 managers by the Forum for People Performance Management and Measurement showed that managers prefer noncash employee recognition programs. According to the study (released in September), managers view noncash awards as “more important, more effective and generally superior for achieving the majority of specific organizational objective.”

10. No Global Parity

In economic terms, it’s called purchasing power parity, which means, roughly, that the cost of living – everything from the price of a nice dinner for two to a month’s rent – can be vastly different in different parts of the world. Companies with worldwide footprints need to make sure their award offerings are equal on a global scale. A dollar, after all, goes a lot farther in some corners of the world than in others. Noncash awards such as gift cards allow companies to offer parity in terms of the overall worth of the award. Additionally, they can be customized to local shops and services, such as boutiques and restaurants.