Maximising Return and Minimising Risk Across Rewards Programs

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Rewards programs exist to recognise and motivate employees and sales partners by establishing an association between desired behaviours and positive results. Rewards help people understand corporate expectations and how to succeed in the eyes of the company. They can drive sales, reduce cost, promote innovation or align an organisation towards a brand promise. These programs have also been successful in increasing retention of key employees and producing greater discretionary selling effort among sales partners.

In fact, in a recent Maritz poll, 66 percent of employees surveyed reported that the opportunity to earn tangible rewards keeps them loyal to their employer[1]. Rewards don't simply shore up employee loyalty; they also create milestones for team members to aspire to and ensure that a system is in place to honour good work. Rewards are often a part of the relationship between company and employee, and maintaining and strengthening relationships is a delicate process – part emotional, part intellectual. Companies must recognise that while salary and sales compensation plans are an appropriate place to exchange cash for performance, rewards are an opportunity to take the relationship further and create a more meaningful connection with employees and sales partners.

1

Motivation comes from meaning

It should come as no surprise that employees believe monetary based rewards – such as cash or cash cards – will drive their behaviour most effectively. But what is surprising is the often ineffective and problematic nature of cash-based incentives.

When companies accommodate employee desires to expand reward choices to include cash, they may be making a mistake. This form of expanded choice has the potential to create disconnect between the behaviour companies wish to motivate and the reward itself, paving the way for both decreased performance and changes in employee attitudes. Further, options like cash and cash cards may invite erosion of the brand. Because cash and cash cards can be exchanged for almost any good or service, these rewards seem to offer the broadest field of options to employees. But this seeming advantage is more likely to disable the program's power to motivate.

Offering cash or a cash card is easy, but is it meaningful? Companies will have a better chance of accomplishing goals through research that identifies organisational and individual motivation profiles. This way, organisations can understand what motivates and is personally meaningful to individuals within their culture. Only then can they tailor an effective mix of highly motivating rewards.

2

Evaluating the options

In spite of the desire by participants to have no restrictions on reward spending, research clearly shows less than stellar results now emerging from experiments with monetary based rewards. Yet companies will continue to feel compelled to shift to cash cards or cash incentives to keep programs fresh and satisfy participants. In the face of this pressure, businesses would do well to understand the sliding risks associated with adopting this type of reward strategy.

- **Risk:** Monetary based rewards are less effective – circumventing opportunities to build more meaningful relationship through intrinsic value.
- **Risk:** Monetary based rewards create disconnect to the brand – eliminating associations between the reward and both the behaviour and the corporate values, and enabling the erosion of values and reputation through ill-aligned spending.

The optimal approach to rewards strikes a balance between employees' desire for choice and the organisation's need to maximise the effectiveness of their program. Ultimately, offering the right number of choices in the right categories will differentiate a company – and motivate employees – far more than a monetary based reward plan can.

3

Risk: Unrestricted rewards damage program effectiveness

A recent study has provided new insight into the benefits of tangible, non-monetary rewards. In the two-month study of 431 call centre representatives, Dr. Scott A. Jeffrey of the University of Waterloo discovered that, on average, program participants who were being motivated with tangible, non- monetary rewards actually thought about their unearned reward nearly 40 percent more than did a control group working towards the exact same goals for a cash reward of equal value[2].

Furthermore, the study was able to quantify that the call centre representatives working towards the tangible incentive had almost 25 percent greater commitment to the goals and offered roughly 10 percent higher performance than those working for cash.

This study clearly demonstrates three important points. First, employees visualise tangible rewards much more frequently than cash rewards. Second, employees who visualise rewards have both greater goal commitment and greater performance. And third, despite common assumptions that lower income earners are best motivated by cash, the call centre representatives in this study proved that a tangible reward will still have a greater impact on program effectiveness.

But why does visualising a tangible reward have a measurable link to performance? New research conducted by management expert David Rock and research psychiatrist Dr. Jeffrey Schwartz helps answer that question[3].

In their research, Rock and Schwartz studied how people reacted to different situations and connected the results to actual electronic activity occurring in the brain. What they found was significant in explaining "why" tangible rewards are more effective.

Basically, the human brain functions much like a roadmap. Accomplishing any task from walking and talking through assembling a complex sales proposal requires a unique set of neuro-pathways to be established. When behaviour is repeated over and over the pathways become well travelled, much like a superhighway. But when a person is asked to do something differently, they may need to create a brand new pathway – often a painful and frustrating experience.

However, the study found that when a person applies "focus", they become more determined to formalise new pathways – as if an entire road crew is at work establishing a connection. Repeated focus then leads to "attention density" – the process of visualising the change to create lasting mental maps over a specific period of time.

When viewed through this lens, the study comparing tangible and cash-based rewards becomes even more compelling. If employees receiving tangible rewards spend more time anticipating and remembering these rewards, then they are more likely to apply focus – a distinct advantage over another who is expecting cash compensation. Additionally, employees eligible for tangible rewards have something concrete to visualize over a period of time – thus building attention density. And as the reward is obtained, the positive reinforcement strengthens the connections further. Over time, old pathways lose prominence, allowing employees to more easily adopt newly reinforced behaviours.

Simply put, tangible rewards offer more to companies seeking improvement and lasting change. And while this benefit is substantial, it is not the only one suggested by Jeffrey's study.

His research also indicates that those who received tangible rewards reflected a higher level of "perceived organisational support."[4] In essence, these individuals had a stronger affinity with their employer, which resulted in their demonstrating many desirable traits:

- Greater commitment to their organisation
- Lower absenteeism
- Frequent demonstration of "citizenship" behaviours

- Willingness to perform above and beyond job description

Companies aiming to motivate, inspire change and foster citizenship among their employees through their rewards program must take into account the significant advantages of more tangible rewards suggested by these and other studies.

4

Risk: participant spending effects on company reputation

A corporate reputation is often carefully crafted and built at significant expense. It represents a brand personality and a brand promise, and is one reason customers return to – or avoid – a business.

Properly leveraged, rewards programs are an opportunity to reinforce corporate reputation and values. For example, a brand whose reputation is associated with safety would ideally have a different rewards strategy than one that has built a reputation based on risk taking. Giving employees and sales partners rewards that reflect the corporate values is a way to build community and differentiate a corporate culture and brand.

Companies that shift towards unfiltered cards* or cash incentives miss a vital opportunity to create powerful associations between the values of the company, the desired behaviour and the community. Further, they open themselves up to the possibility that recipients may spend the reward in ways that directly oppose the corporate vision and values. Imagine the implications if a sales representative at a children's toy company is spotted using his company branded rewards card at an adult entertainment club. This would reflect neither the intent of the reward nor the values of the company that offered it.

*Unfiltered cards allow expenditure at any credit card enabled shop.

A related concern is that unfiltered cards and cash are quickly absorbed into overall spending. This enables employees to disassociate their reward and their behaviour, weakening the impact of the rewards program. In short, unfiltered cards and cash are so impersonal that they fail to reflect the reward, the company, the behaviour and the brand.

To most employees, unfiltered cards and cash are desirable because they represent maximum choice. It is possible, however, to offer choice to employees without taking on the potential compromises of these rewards. Filtered spending (spending at selected retailers) has proven very successful in providing expansive choice to employees while enabling companies to protect themselves from ill- aligned spending and retain many of the benefits of non-cash incentives.

Maritz research demonstrates that when there are some restrictions over spending, a larger percentage of cards are redeemed for memorable spending[5]. This suggests that filtered spending options encourage employees to spend their rewards on more tangible and thus more effectively motivational items.

5

Conclusion

The majority of employees and sales partners today believe they would like to receive incentives in the form of cash or cash cards. But companies should neither take this pressure at face value nor make the decision to shift to cash lightly.

Research indicates that employees work harder for tangible incentives and that these incentives have more potential to inspire focus and motivate powerful and lasting change. Further, tangible incentives cost less per improvement dollar, and they are easier to align with corporate values.

Rewards programs exist for the purpose of retaining and motivating people and the current evidence indicates that non-cash rewards are the most effective option for meeting these goals.

In considering a cash-based rewards system, companies should carefully weigh current research and potential risk before making a change. It is possible to offer participants more choices while still retaining the valuable aspects of non-cash rewards.

Endnotes:

1 Maritz Poll, August 2004

2 SalesForceXP “Right Answer Wrong Questions”, 2004

3 Rock, David and Schwartz, Jeffrey. The Neuroscience of Leadership. 2006

4 Jeffrey, Scott A. “From Art to Science” Presentation, 2007

5 Maritz Incentive Summit, 2006

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