Analysis of Tangible Rewards in Incentive Schemes

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Abstract: This report explains why sales employees treat tangible rewards differently from cash rewards and how tangible rewards motivate sales employees to attain better performance based on relevant theories and experiments. Five main explanations are given. Firstly, employees perceive cash rewards as "more salary" and treat tangible rewards separately from cash earnings. Consequently, tangible rewards are perceived more valuable. Secondly, the hedonic nature and an ambiguity in value lead to an increase in perceived value of tangible rewards. Thirdly, tangible rewards better convey employers' recognition and appreciation of employees' good performance and therefore are perceived more memorable and valuable. Fourthly, employees find it is easier to justify hedonic purchases if the hedonic goods are earned as tangible rewards. Accordingly, tangible rewards are more attractive. Lastly, poor-performing sales employees tend to be more optimistic when eligible for tangible rewards and exert more effort.

Based on the findings, the report also gives some recommendation on using tangible rewards to motivate employees:

- To consider the income level of employees
- To ensure tangible rewards are of hedonic nature
- To implement some tournaments schemes if applicable
- To communicate recognition and appreciation through tangible rewards

Keywords: Tangible Rewards; Cash Rewards; Incentive Schemes

1. Introduction

Nowadays, extrinsic incentives are widely used to motivate employees all over the world. Employees motivation has always been in the spotlight in most organisations. The majority of managers hold that cash is the most effective extrinsic incentives, however, an increasing number of researches has shown that tangible rewards such as gift card could bring better returns for organisations under certain circumstances, compared with equivalent cash rewards (Jeffrey & Shaffer, 2007). It raised the interest to research on the reasoning behind this trend and analyse the logic of considering a tangible reward as a more effective rewarding scheme. Also, it is transparent that incentive design is full of difficulties and challenges, since human is not rational, which has been proved by lots of investigations such as Allais paradox and risk aversion (Harin, 2006). Consequently, many psychology theories are required to be taken into consideration. This report is endeavoured to analyse this question by explaining how employees perceive tangible rewards differently and why tangible rewards appear to be more effective and responsive under particular situations. Note that even though many experiments demonstrate that intangible rewards are more effective to some extent, there exist constraints and limitations. As a result, how to make best of intangible rewards is still required to explore in detail.

2. Explanations

2.1 Mental accounting

Employees perceive tangible rewards distinct from cash earnings and place tangible rewards in a mental account that is separate from cash earnings, but they view cash rewards similar to cash salary. According to Presslee et al. (2013), cash rewards are perceived "more salary" as cash rewards are usually deposited into the same bank account as cash salary. In addition, cash rewards are more likely to be used in paying daily expenses, and the way employees categorize them in their mental accounts is not much different from wages and salaries. So, there would be less impressive meaning for the rewards (Thaler, 1985). Moreover, according to Helion and Gilovich (2014), people are more likely to purchase hedonic goods with gift cards than with cash. Tangible rewards are more likely to be recognized as an additional reward for their performance, so that it is in a separate mental account with biggish perceived utility (Viswanathan, et al., 2018), which is more visible, and could bring employee with more enjoyable and pleasant feeling. Choi and Presslee (2016) conducted two laboratory studies by providing participants with cash and tangible rewards as extra performance-contingent compensation for their real-effort task and asking them to complete a free-sorting task by categorizing different cash and tangible bonus item, and the participants did tend to treat tangible rewards distinctly from salary than cash rewards.

In addition, employees value a potential reward by comparing with other similar rewards rather than in absolute amounts (Kelly, Presslee, & Webb, 2019). As employees view cash rewards as additional earnings, they will evaluate the increase in salary compared to their base salary when they earn cash rewards. However, they tend to evaluate tangible rewards separately or in a smaller mental account such as travel or entertainment (Jeffrey & Shaffer, 2007). As cash salary usually has a higher amount while other non-cash receipts or hedonic purchases usually have a lower amount, employees will view a cash reward less valuable. Consequently, tangible rewards are perceived more valuable than equivalent cash rewards.

According to expectancy theories of motivation, more efforts will be exerted if the value of the reward is higher (Jeffrey & Shaffer, 2007). So, tangible rewards will more effectively motivate sales employees if tangible rewards are perceived more valuable.

2.2 Evaluability

Employees will exert higher effort to attain a reward if they predict the reward is worth to them, in other words, they will consider the predicted consumption utility of the reward. The hedonic nature of a tangible reward leads to an emotional reaction of employees to the reward, and the reaction contributes to an ambiguity in value and ultimately increases the perceived value of the reward (Jeffrey & Shaffer, 2007). The tangible rewards are always ambiguous in value and the emotional reaction further increases the ambiguity. As a result, the ambiguity in value and the emotional reaction increase the value of tangible rewards perceived by sales employees, and sales employees will exert more effort to achieve better performance.

2.3 Social reinforcement

Jeffrey and Shaffer (2007) stated that employees receiving tangible rewards will benefit not only from pure value of the rewards but also from the recognition and acknowledgment of their performance by their families, friends, colleagues and managers. Tangible rewards are more visible than cash rewards and others will be knowledgeable of employees' good performance if employees earn a tangible reward. In addition, employees are reluctant to discuss about their cash earnings because it is unacceptable by the society. However, it is more acceptable to talk about the tangible rewards they earned from work. Moreover, tangible rewards in the form of physical goods like televisions generate additional benefit from functioning as reminders of good performance and employees will keep in mind that their company value them. Therefore, tangible rewards are more memorable and valuable. In addition, when cash rewards are used to purchase utilitarian items, these rewards become unmemorable and unemotional (Thibault Landry, Schweyer, & Whillans, 2017). As mentioned before, cash rewards are more likely to be used for utilitarian purchase. Thus, tangible rewards are more memorable and emotional than cash rewards.

According to self-determination theory (SDT), social recognition and the feeling of being valued by companies achieved from tangible rewards may better motivate employees to achieve better performance. SDT can be broken down to intrinsic and extrinsic aspects. For intrinsic motivation, it focuses more on personal meaning (Cerasoli, Nicklin, & Ford, 2014), which refers to the coherence between employee's actual work and their personal identity, values, and aims (Ryan & Deci, 2000). In satisfying employee's intrinsic needs, they would prefer to put more voluntary efforts into their work, which is in a higher level than enjoyment (Thibault Landry, Schweyer, & Whillans, 2017). While extrinsic motivations are those coming from external sources. Like financial returns and status, they are expected by employees as an objective at the first place; or they could also be emotional related, such as pressure from life, fear of unemployment and so on (Ryan & Deci, 2000). As a matter of fact, among employees, pure cash rewards would lead to a transactional mindset focusing on quantity and speed, which is at opposite poles of quality and enjoyment (Cerasoli, Nicklin, & Ford, 2014), and only result in an encouragement of extrinsic motivations to some extent, at the expense of harming employees' intrinsic motivation (Moller & Deci, 2014). While tangible rewards could better encourage employees to concentrate on their intrinsic interests, instead of money (Hur & Nordgren, 2016).

In addition, Thibault Landry, Schweyer and Whillans (2017) stated that there are three basic psychological human needs: autonomy, competence and relatedness, and if these needs are satisfied, employees are more committed and engaged in work. Compared to cash rewards, tangible rewards better communicate employers' recognition and appreciation of employees' good performance to employees, satisfying employees' psychological needs and therefore motivates them to be more engaged and exert higher effort at work.

However, this does not mean tangible rewards are always more appropriate from SDT perspective. As a matter of fact, its utility could be enlarged when it satisfies some specific contextual and cultural factors. Firstly, tangible rewards could encourage employee more than cash rewards within a knowledge-based society, which focus more on service quality, not only quantity. Secondly, the advantage of using tangible rewards are more obvious when the work is complex, non-routing, and creative, this is in consistence with most of the works in advanced economic environment at present (Thibault Landry, Schweyer, & Whillans, 2017). Thirdly, tangible rewards are more attractive within a low unemployment labour market, since employees have plenty of available options and job opportunities to earn monetary rewards, any cash-like rewards might give them an impression and feeling of empty motion or mere transaction which are meaningless (Gagné & Forest, 2008).

2.4 Justifiability

Even though there are considerable researches concerning the impact of extrinsic incentives on employees, there is little investigation about the distinction of a cash reward and a non-cash reward. Scott Jeffrey (2009) made some hypotheses and conducted experiments to support them. He introduced the concept of the 'Justifiability'. Many non-cash rewards are the things that can be regarded as luxuries, the purchase of which normally cannot be justified by employees, no matter whether they have adequate money or not. To be specific, employees would find it easier to justify the consumption of the luxurious products if it is given as incentives rather than purchased by themselves, which might, in turn, make the non-cash rewards more attractive and efficient.

As regard to the justifiability concerns, to be efficient, the non-cash rewards are supposed to be things that employees would not normally purchase. The high-class products and international travel would be desirable non-cash rewards since most people would feel guilty after purchasing them. Moreover, the income levels should be considered of great importance in terms of the use of non-cash rewards. Those who have higher income would find some items easier to justify and find those non-cash rewards less attractive, which may result in discouraging them to earn those non-cash rewards.

The justifiability concerning purchases play a critically significant role in the performance. The guilt of the consumption of the luxurious non-cash reward could be alleviated since it is obtained through their efforts. On top of that, note that these participants must meet their daily obligations with their own money, and many had to provide support for family members, which helps to exclude upper-income individuals.

Specifically, those who found it more difficult to justify purchasing the tangible non-cash reward, claiming that they strongly preferred cash rewards, achieved better results than those who found it relatively not difficult to justify. This result is in line with the study concerning competing for internal preferences. Behavioural inconsistencies are often caused by the distinction between a "want self" and a "should self" (Bazerman, Tenbrunsel, & Wade-Benzoni, 1998). The former is what people want to do and the latter is what people think they are supposed to do. O'Connor (2002) hypothesized that a "should self" put more emphasis on long-run benefits, while a "want self" put more emphasis on instinctive concerns and prompt satisfaction. He also found that the "want self" is in the dominant position in people's actual performance. In stark contrast, people respond to the questions about the preference for cash rewards according to the "should self".

There are some restrictions on this research. Firstly, the size of the incentive is a small amount and the nature of the task is factitious, which implies that the results may be invalid when professionals conduct their daily tasks for a relatively larger amount of reward. Secondly, there may be other underlying reasons that could explain the behavioural inconsistency except for justifiability. Finally, this experiment does not take cultural differences into consideration. Under different cultures, the results may be varied.

For the majority of sales employees, they do not have a higher income and have to pay their daily obligations. It is difficult for them to justify the consumption of some luxurious items. Common high-class items could be the effective non-cash rewards to encourage them if the target is just beyond their reach. Even though they may state that they have a stronger preference for cash rewards, in fact, they may achieve better results in pursuit of non-cash rewards.

2.5 Risk and reward

Rottenstreich and Hsee (2001) stated that people tend to overweight small probabilities of affect-rich outcomes because these outcomes are highly attractive. They categorized tangible rewards in affect-rich outcomes and cash rewards in affect-neutral outcomes. They also found out that people tend to underweight high probabilities of affect-rich outcomes compared to affect-neutral outcomes, because of a fear of failing for affect-rich outcomes. So, employees may be more optimistic and exert more efforts to attain tangible rewards than to attain cash rewards when they think there is little chance to achieve a potential reward, and less optimistic and exert less efforts to attain tangible rewards than to attain cash rewards when it is highly probably that they will achieve a potential reward. In other words, poorer performers tend to increase their efforts to attain a potential tangible reward in the future, and stronger performers tend to decrease their efforts to attain a potential tangible reward in the future. There are two conditions here to support the argument that tangible rewards are more effective at motivating employees than cash rewards. First, there are more than one performance measurement period. Second, employees must be able to receive timely feedback on their past performance.

Kelly, Presslee and Webb (2017) conducted a field experiment involving 54 independent home furnishing retailers in two sales contests to figure out the difference between gift card rewards and cash rewards regarding their effects on salespeople's performance in the contests. The experiment consists of two consecutive three-month sales contests and the best performers were rewarded. Some of them competed for cash rewards and the rest of them competed for gift cards. Sales employees can choose gift cards from a list of local retailers and restaurants. In addition, sales employees were given feedback about their total sales and relative ranking at the end of each month. At the end of each sales contest, three months later, the top performers were announced as winners. They found that there is no difference in performance on sales revenue between gift card rewards and cash rewards in the first contest, but in the second contest, sales employees competing for gift card rewards generated higher sales revenue. So, the poorer performers competing for gift card rewards in the first contest were more likely to be motivated to perform better in the second contest.

Kelly, Presslee and Webb (2019) further explained that, according to economic theory, employees performing poorly in sales contests tend to give up if they perceive that there is little chance to win the contest; they tend to increase effort if they think this will increase the probability of winning the contest. Consequently, sales employees consider it risky to continue competing in the contest if they think more effort does not guarantee more sales revenue or the top performance in the contest.

However, poorer performers eligible for gift card rewards tend to ignore the low probability of winning and put more efforts to win a contest because gift card rewards generate more positive emotions. Emotions generated by gift card rewards is more positive than that of cash rewards because they are more memorable. Accordingly, tangible rewards are more effective to motivate poorer performers in sales contests compared to cash rewards under certain circumstances.

There are three key elements identified by Kelly, Presslee and Webb (2017) in the experiment to support the results. First, tangible rewards are in the form of gift cards for hedonic purchases and different choices are available. Second, employees compete in repeated sales tournaments and rewards are based on relative performance over more than one period. Third, employees receive feedback on their relative performance during the previous period.

3. Conclusion

To sum up, based on the previous discussions and information derived from key literature, it is found that from employee's point of view, especially for those from sales and services department, tangible rewards and monetary rewards are categorized differently. From the perspective of mental accounting, evaluability, social reinforcement, justifiability, and sense of reward, tangible rewards can be more attractive and motivate employees to contribute a higher level of effort and performance by providing them with better satisfaction on varieties of psychological needs under particular conditions. For certain condition, more detailed analysis should be taken on both contextual and cultural aspects. When the tangible rewards are used in other departments of an organization, the effectiveness and efficiency mostly rely on their natural setting, such as the distinction of employees' income level, whether it has implemented a competitive mechanism and there is a tendency to focus on qualitative results, etc. Only if those mentioned conditions are satisfied appropriately, tangible rewards can be meaningful. Generally speaking, the use of tangible rewards can be meaningful in incentive scheme. Its design must rely on the specific situation, which requires further and detailed investigation.

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