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IMPROVING PRACTICE & APPLICATION

CONTENTS

IRF® Incentive Research Foundation

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FROM THE EDITOR, ALLAN SCHWEYER

The debate over cash versus non-cash incentives and rewards often misses the point. From the perspective of many IRR (Incentives, Reward & Recognition) professionals, and certainly any merchandise, gift card, or incentive travel fulfillment business, non-cash has to be better or there's no business, but that doesn't make it better. Motivation leading to better performance is the only real point of rewards. If non-cash rewards are more effective than cash, then they must drive greater engagement and better outcomes.

Whether better outcomes means more sales, fewer accidents, less turnover, or better customer service, IRR professionals and fulfillment firms need data and evidence to back their assertions that non-cash is king. Fortunately, such evidence exists in abundance, just waiting to be inserted into your business case and program design.

Of course, the research doesn't state that tangible non-cash rewards are better in every circumstance for every person. Sometimes, cash is the right answer; other times, appreciation alone is enough. But this growing body of data, much of it based on controlled field experiments, indicates that well-designed non-cash reward programs drive better results than cash in most circumstances. Moreover, the authors (academics from respected colleges and universities worldwide) explain why they think this is so.

In this journal, we examine academic research relevant to IRR. That means we often report on research that compares cash with tangible and intangible non-cash rewards. We select the best, most rigorous research available, summarize it, and add extra information from the authors relevant to the practical application of their findings. In this issue, we've included one brand new study and three recent "classics."

Why the classics? In his book of success principles to live by, one of the ways Japanese business guru Hiroshi Mikitani describes the differences between amateurs and professionals is this: *"Professionals embrace a mental framework of their field and they use it to engage in analytical decision-making."* The research we select for the journal gives you that mental framework. Some of it is twenty years old and some two months old; knowing it gives you the foundation you need for better design and better decisions.

RECENT & RELEVANT

Academic Research Summary: Is Cash King for Sales Compensation Plans?

Citation: This summary is based on a journal article by Madhu Viswanathan (U. Arizona) Xiaolin Li (U. Texas), George John (U Minnesota), and Om Narasimhan (London School of Economics). Journal of Marketing Research: June 2018, Vol. 55, No. 3, pp. 368-381.

Full Title: *(2018)* Is Cash King for Sales Compensation Plans? Evidence from a Large-Scale Field Intervention.

Availability: The full text of this article is available in the journal: Journal of Marketing Research, June 2018 (http://journals.ama.org/doi/pdf/10.1509/jmr.14.0290). A free version can be obtained at: carlsonschool.umn.edu/sites/carlsonschool.umn.edu/files/faculty/publications/revisionca_0.pdf

Overview: This groundbreaking research adds significantly to the sales-motivation literature and motivation in general. It is a must-read for anyone involved in merchandise rewards and those interested in the cash versus non-cash rewards debate generally. Building on decades of research, the authors report the results of a rigorously-conducted, large-scale field experiment involving almost 600 salespeople in a US food company. The subjects were unaware of the experiment, making their actions natural and unbiased. This important research examines what happens when a firm moves its salespeople from an incentive program based on a mix of cash and reward points to a cash-only regime. It describes the effects of mental accounting and cash vs. merchandise preference with implications running into the millions of dollars for the organization.

Summary

When a new VP Sales took over at a Midwestern consumer packaged goods manufacturer, he questioned the organization's use of a complex merchandise reward-points incentive program. The program rewarded sales people with cash and reward points for exceeding their monthly targets. Recipients could accumulate points and redeem them for a wide variety of goods in a merchandise catalog (supplied and fulfilled by a third party provider). The VP Sales decided to simplify the sales incentive program by making it all cash. He asked the researchers to design a study to examine the results. The study lasted nine months.

Results

- Sales declined by 4.36% over the nine-month duration of the experiment. The experiment was subject to numerous controls leading the researchers to conclude that a causal relationship existed. In other words, the switch from a cash/merchandise reward program to an all-cash reward program resulted in a sales decrease of 4.36% costing the firm millions of dollars in lost sales. In the authors' words: *"It is noteworthy that merchandise incentives induced greater effort response to the tune of several millions of dollars compared to an equally costly cash-only incentive plan at this firm. This result goes a long way to explain the pervasive use of merchandise incentives in practice."*

PRACTITIONER SUMMARY: Is Cash King?

- The drop in sales was accompanied by a corresponding and highly significant drop in sales effort, further supporting the existence of a causal relationship.
- Declines in sales and effort were most pronounced among formerly high-performing salespeople. The size of the sales drop increased from lowest performers to highest.
- The more household discretionary income a salesperson had, the greater the drop in their effort and performance.
- In a separate survey of the salesforce, the great majority of salespeople indicated a preference for cash over merchandise rewards.
- "Invariably," the researchers found that merchandise redeemable in the former program was more expensive than the same items available at Amazon.

Key Findings:

- Despite salespeople's stated preference for cash, and despite the fact that they could use cash to buy more than the equivalent merchandise on Amazon, behaviorally the subjects of this experiment demonstrated their preference for merchandise rewards by exerting significantly less effort and making significantly fewer sales when rewarded with equivalent cash only.
- The better performing a salesperson, the more pronounced the drop in effort and sales. Suggesting that non-cash rewards may be even more important to high-performing salespeople.
- Lower household discretionary income leads to greater preference for cash, suggesting need overrules all else. Interestingly, a salesperson's attitude toward cash matters also. Those who view it as a straight-forward medium of exchange for goods and services tend to prefer merchandise rewards. Those who think more about the various uses of cash (e.g., investments, etc.) prefer it to merchandise.
- Those attracted to merchandise rewards prefer luxury rewards over utilitarian rewards.

Actionable Take-Aways:

- Merchandise rewards motivate. Even though cash is more flexible and is the logical choice (especially in this program where points buy less than the equivalent cash) there are psychological reasons people work harder for non-cash rewards. This is well-documented in the literature and this study contributes significant new empirical evidence of an exceptionally high quality.
- Don't take employees' word for it. Most of the existing research tells us that people will choose cash rewards when given the choice. This study also tells us they prefer cash rewards, but again, only at the conscious choice level. Subconsciously and behaviorally, more people prefer non-cash rewards, as evidenced by greater effort and better outcomes.
- Offer choice – both cash and non-cash – and a wide variety of merchandise rewards, utilitarian and luxury. This study demonstrates a causal relationship between the elimination of merchandise rewards and a significant drop in sales and effort. The authors also assert that a merchandise-only program would likely result in sales above the cash/merchandise program in place before the experiment (see next page). Remember though, households with little discretionary spending budget prefer cash, and the literature clearly indicates that greater choice drives better outcomes in reward programs.

Q&A:

Q1: Do you think a merchandise-only program would have generated different results?

We actually assessed the response to an all-points program using an econometric approach called structural analysis (not reported in the published paper, but available from us). By specifying the form of the utility function, and using more granular data (weekly sales), we can estimate the parameters of the utility and cost of effort function. Using these estimates, we can simulate/estimate the response to alternative, untested alternatives. Our results show that the response to an all-points program (of equal cost of the firm) improves effort and sales above the current cash plus points program a little bit more than the drop observed by going to all-cash. Of course, this assumes the underlying theory holds, about which we are pretty confident.

In other words, the researchers believe, based on their data analysis, that an all non-cash program would have increased sales above the original cash/non-cash program by more than 4.36%.

Q2: To what extent do you believe reward choice (cash or merchandise) plays an important role in driving sales effort and outcomes?

There are two aspects of this problem. Consider them in turn:

a) If you are asking whether offering a menu of plans to each salesperson works better than a single plan, our short answer is "yes". It cannot hurt when each person can choose the menu option best suited to them (e.g., all-points versus cash plus points). Whether this works in practice is a question of feasibility because menu plans are quite difficult to design and manage on an on-going basis. In other words, choice is good where feasible.

b) If you are asking whether a combination plan (cash plus points) trumps both all-cash and all-points, then our answer is "no". As far as we can tell, there is no "Goldilocks" pattern of preferences in our data.

Q3: To what extent do you think these results apply outside of sales (e.g., to other employees, customers, partners, etc.)?

We think our results from B2B selling will extrapolate to simpler sales settings as well. On the other hand, if relevant output measures are unavailable (e.g., customer service engineers), then any type of incentive is made more difficult to implement. Likewise, if the work is directly monitored or observed by a supervisor (e.g., call center employees working from a script), then incentives are unnecessary as they increase compensation costs. These limitations apply to all kinds of incentives, not just merchandise incentives.

Consumer-focused merchandise programs (i.e., loyalty programs) have a long and variable history. On paper, they should work, but studies looking at them rigorously are scarce. Partner-focused merchandise rewards are unlikely to work better than cash rebates and/or volume pricing. However, the plans we studied and the results should apply to individual employees of these counterparties in the form of "spiffs".

In other words, the results of this experiment should work with other sales and non-salespeople but it depends on the type of workers involved, and to a degree, on the circumstances.

More Questions?

Professors Viswanathan and John are members of the IRF's Academic Network. They and their co-authors welcome your questions or comments about their research.

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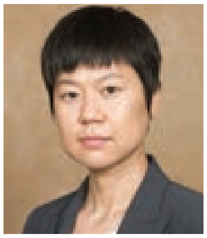
Bio | Other Research



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RECENT CLASSICS:
Academic Research Summary: It's Not All About the Jacksons

Citation: This summary is based on a journal article by Liad Bareket-Bojmel, Guy Hochman, and Dan Ariely in the *Journal of Management*. May 27, 2014 (Vol 43, Issue 2, pp. 534 – 554).

Full Title: It's (Not) All About the Jacksons: Testing Different Types of Short-Term Bonuses in the Field

Availability: The full text of this article is available at: http://0-journals.sagepub.com.aupac.lib.athabascau.ca/doi/pdf/10.1177/0149206314535441

Overview: If you've read certain of Dan Ariely's recent bestsellers about human motivation and decision-making, you've probably seen accounts of the experiment described in this summary. Ariely, Hochman, and Bareket-Bojmel tested the effects of three short-term reward types (bonuses) with workers in a semiconductor plant in Israel. The rewards were provided for achieving output beyond baseline performance. Those who qualified earned either cash ($25), a family pizza voucher (worth $25), a written note of appreciation from their immediate senior manager, or a choice between cash and pizza. You may be surprised at the differences in impact between the reward types – and the effects when the rewards were removed.

Summary

The researchers chose workers at this semi-conductor plant because worker output (i.e., performance) was easily measured and contingent only on personal effort. They set baseline productivity on average output-per-shift from the 14 shift period prior to announcement of the program. The reward program ran for five weeks, covering four work cycles. Employees were rewarded for performance based on Day 1 output in each of the four work cycles (four days per cycle). Rewards were distributed on the morning of Day 2. Over the course of four work cycles, each employee experienced each of the four reward conditions once – cash, pizza, praise, and choice.

Results

- Overall, worker productivity rose significantly on Day 1 of each cycle (by almost 6%). Recall that Day 1 was the one and only day for which productivity was rewarded.
- Non-cash rewards (pizza and praise) resulted in 6.7% and 6.6% performance increases. Cash resulted in a 4.9% performance improvement. Non-cash tangible (pizza) and intangible (praise) drove better performance results than cash.
- Productivity dropped significantly (2.2%) relative to base productivity in days 2-4, after the bonus was removed. Cash recipients performed the worst after Day 1. Productivity plummeted on Day 2 by a remarkable 13.2%. On average cash resulted in negative 6.5% performance across the work cycle relative to base productivity. Pizza was negative 2.1%, praise was positive .64%, and interestingly, choice was also slightly positive at .2%.
- The only significant and sustained drop in performance after the reward was removed was in the cash condition. However, when cash was chosen by workers in the choice condition, the same effect wasn't observed. In other words, when cash was chosen by the reward recipient, it did not generate a significant performance decrease versus base performance once removed.
- Though the researchers could not test absenteeism against each of the reward types, they found that short-term bonuses reduce absenteeism considerably, both during the program and for weeks afterward.

Key Findings

Most organizations use short-term bonuses (i.e., contingent rewards) to focus workers on important short-term goals. This field experiment offers empirical evidence that:

- Both cash and non-cash rewards work to motivate higher performance in the short-term.
- Non-cash rewards drive higher performance than cash rewards.
- When cash rewards are removed, performance drops immediately and profoundly over the work cycle, far below base performance. In other words, though cash drives short-term performance gains, it significantly harms long-term performance.
- The removal of the non-cash, tangible reward (pizza) and intangible reward (praise) in this experiment resulted in an immediate decline in performance. However, the change was not significant against base performance. In other words, the incentives worked to spur short-term performance while having no impact on long-term performance.
- These results support extensive research that suggests cash can be perceived as controlling and manipulative where non-cash may be perceived as autonomous and encouraging. It also supports past research suggesting that cash creates an expectancy. It causes a psychological condition known as the "entitlement effect." Once you use cash rewards, people come to expect it. To maintain the initial performance boost you must increase the cash reward. If you remove it, you face a backlash in the form of performance loss.
- Choice matters, at least when offering small bonus rewards. The controlling nature of a cash, contingent reward (i.e., 'if you do this, I'll pay you that') may disappear when a worker is at least offered the non-cash reward.
- The praise and choice conditions led to significant higher-than-base performance on Day 2 of the experiment. The cash group dropped dramatically below base on Day 2. This suggests that cash may have a lower reciprocity effect. In this experiment, it created an immediate negative reciprocity effect (a backlash) once removed.
- Overall, the reward program coincided with significantly lower absenteeism. This continued in the few weeks after the program (after the rewards were removed). One reason may be that even small rewards convey appreciation, and that appreciation is reciprocated in greater worker commitment to the organization.

Actionable Take-Aways

- Short-term rewards of all types drive higher immediate performance, but avoid offering cash rewards alone as they are likely to cause a backlash once removed. That backlash might amount to significantly worse performance than if the reward program had not been offered – at least temporarily.
- Small non-cash rewards, including simple praise, drive better performance than equivalent small cash rewards. More significantly though, they do not produce a backlash once removed.
- Small reward, short-duration reward programs may work well to focus workers on high-priority tasks, but consider offering choice (e.g., cash vs. pizza or equivalent) or recognition in combination with the choice of cash or pizza/equivalent.
- Though the use of small rewards appears fraught with peril, when designed well, they should not only drive higher short-term performance with no consequences once removed, but they may also drive sustained increases in commitment – as demonstrated by lower absenteeism – even after they are removed.

Question & Answer with Guy Hochman

Q1: How could the results have differed if two additional conditions were tested: a) cash plus praise b) pizza plus praise?

There is no panacea for motivating people. Effective reward systems should tap on both internal and external motivation, and employ different types of incentives. Thus, I believe that the additional conditions which combine two types of incentive would have been beneficial and would result in increased performance with no backlash once the reward is removed.

Q2: Why do you think cash appears to elicit greater backlash when removed, compared to pizza or praise?

When organizations use mainly money to incentivize employees, workers start working mainly for money. Thus, when the extra incentive (the money) is removed, workers are much less motivated. This is why it is so important to use different types of incentives.

Q3: Do you believe there's a point at which praise alone might not communicate sufficient appreciation and draw a backlash of its own?

I do. I think that while it is important to show your employees that they are appreciated – as this is a key element in positive reciprocity in the workplace – employees (especially the good employees) want to feel like their effort and good work is being appreciated materially. While money is not the goal in itself, we need money for food, gas, entertainment, etc. Thus, using non-tangible too often might draw a backlash since too much praise alone will cause this important incentive to lose its edge.

More Questions?

Guy Hochman is a member of the IRF's Academic Network. He welcomes your questions about this research.

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Bio | Other Research

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Bio | Other Research

RECENT CLASSICS

Academic Research Summary: The Currency of Reciprocity

Citation: This summary is based on a journal article by Sebastian Kube, Michel André Maréchal, and Clemens Puppe. Published in The American Economic Review 2012,102 (4): 1644-1662

Full Title: (2012) The Currency of Reciprocity: Gift Exchange in the Workplace

Availability: The full text of this article is available at: www.aeaweb.org/articles?id=10.1257/aer.102.4.1644

Overview: The simple but exceptionally well-constructed experiments that are the subject of this paper shed light on the question of reciprocity in rewards. The researchers recruited 139 subjects. All were offered EUR 36 for three hours of work in a library where they would enter information about books into a database. The subjects did not know they were part of an experiment. When they arrived, they were slotted into one of six treatment groups (unbeknownst to them). In each of the first five groups, the subjects were thanked and told that in appreciation for their work, and in addition to the agreed upon EUR 36, they would, at the conclusion of their work: (Group A) receive a cash gift of EUR 7, (Group B) receive a water bottle wrapped in cellophane, (Group C) receive a water bottle wrapped in cellophane with the price (EUR 7) clearly visible, (Group D) receive either EUR 7 cash or a water bottle worth EUR 7 (their choice), or (Group E) receive EUR 7 wrapped in an attractive Origami design. Of the 139 subjects, 35 were placed into a control, or baseline group, and told only that they would receive the agreed upon EUR 36.

Summary

The researchers sought to test whether employer kindness, in the form of non-contingent bonuses beyond base pay, result in reciprocity. In other words, whether and what types of non-contingent gifts drive higher effort and performance, and in what amounts. The series of experiments conducted by the researchers found that workers do reciprocate to gifts – in most cases significantly – and that both quantity and quality of output increase remarkably depending on the type of gift and how it is presented. It is important to note that in this experiment, participants were not offered rewards contingent on their performance. Rather the rewards were shown to the participants before they started their work, and guaranteed. They were provided only as a gesture of appreciation.

Results

- Group A, shown EUR 7 cash, performed only very slightly better than the control, or baseline group. The difference was found to be insignificant, in other words, cash had no performance effect.
- Group B, shown the water bottle, performed significantly better than baseline, 25% better.
- Group C, shown the bottle with the price clearly visible, performed about the same as Group B.

PRACTITIONER SUMMARY: CURRENCY OF RECIPROCITY

- Group D, who were shown and could choose between EUR 7 cash or the clearly-priced water bottle, overwhelmingly chose cash and performed identically to Group B.
- Group E, shown the origami-wrapped cash, performed the best, 30% better than baseline (though not significantly different than treatments B, C & D).
- Workers in all groups performed work of higher quality than the control/baseline group. The Origami/Cash group exhibited the highest quality of all groups.

Key Findings

- Non-contingent, non-cash tokens of appreciation appear to drive outsized performance and quality boosts.
- Consistent with most existing research, people choose cash over non-cash when given the choice. What's interesting here is that choosing cash results in the same performance increase as being given the bottle (no choice). In the researchers' own words: "Simply offering the bottle was enough to trigger reciprocal reactions—even if the workers did not choose the bottle."
- Due to the fact that almost everyone in the choice condition chose cash, it can be assumed that the water bottle was not a particularly compelling gift. Nonetheless, its effect on performance and quality was significant.
- Presentation of rewards is more important than the reward and perhaps more important than choice as well. Workers appear to reciprocate more corresponding to the perceived level of effort and time – and perhaps thought – that goes into the gift. Hence the elaborate presentation of cash wrapped in Origami produced the best performance and the highest quality.

Actionable Take-Aways

- Consider showing your teams unexpected, non-contingent tokens of your appreciation (rewards) before they undertake work on projects. The reciprocity effect, as clearly demonstrated in this study, should result in greater effort and more output at higher quality.
- Provide choice in your reward programs, the psychological benefits of giving reward-earners choice are well-documented and align with the foremost theories in human motivation, including Self-Determination Theory.
- Communicate time and effort in the presentation of your rewards. As the researchers state in the paper, the old saying: "it's the thought that counts" bears out in the results of these experiments, at least in terms of conveying time and effort in the presentation of the rewards.
- This study involved strangers (participants) working with strangers (researchers) for a very brief period of time (3 hours), thus the effects and complexities of relationships do not factor. Participants could not have expected the researchers to know them and therefore, should not have been disappointed at the absence of thoughtful, personalized non-cash gifts. Nothing, thus, can be taken from this study in terms of the impact of non-cash reward selection. It follows though, that if workers reciprocate more based on their perception of the time and effort put into reward presentation (as illustrated in this study) they will reciprocate proportionately more based on their perception of how much thought was put into selecting the right gift for them.

Question & Answer with the Researchers

Q1: Do you believe that personalized non-cash gifts worth EUR 7, presented to participants based on a knowledge of their likes and interests, would have boosted performance and/or quality in the bottle groups (price revealed or price not revealed)?

To the extent that personalization takes time and the effort signals appreciation, I would expect personalized gifts to increase productivity. This is, however, mere speculation. Our research suggests that gift-exchange is a complex phenomenon and we need more experimental research.

Q2: Do you believe the results would hold in a long-term employment situation rather than just three hours of work? In other words, how can/should we apply these results in organizations?

Again, we don't know much about the long term effects of gifts. I personally think that an element of surprise is crucial to prevent adaptation. Regular gifts, such as Christmas gifts, might create strong expectation. Workers eventually adapt and think their Christmas gifts are part of their normal compensation/treatment. I therefore, guess that regular gifts lose their motivational power over time. But their removal is probably still harmful, such that firms get locked in. Hence, I believe firms should rather reward their employees randomly, from time to time, and surprise them with appreciation.

More Questions?

Professors Kube, Puppe and Maréchal are members of the IRF's Academic Network. They welcome your questions about their research.

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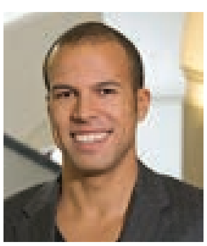
Bio | Other Research



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Bio | Other Research

RECENT CLASSICS:
Academic Research Summary: Paying $30,000 for a Gold Star


Paying $30,000 for a Gold Star:
An Empirical Investigation into the Value of
Peer Recognition to Software Salespeople*

Ian Larkin, Harvard Business School

This version: September 22, 2012

This study estimates the value salespeople at a leading enterprise software vendor place on winning a major award: induction into the vendor's annual "Sales Club," which is awarded to the top 10% of salespeople each year. The "Sales Club" carries no monetary prize, and largely only confers peer recognition on winners, such as a company-wide email from the CEO identifying winners and the placement of a "gold star" on winners' business cards. We rely on the non-linear nature of the vendor's sale incentive scheme, and the fact that all salespeople are told how close they are to the 10% threshold at the end of the third quarter each year, to identify salespeople who face a discrete choice: close deals in the fourth quarter to increase the likelihood they will make the "Sales Club," or delay deals until the first quarter of the following year and earn greater commissions. Using standard revealed preference techniques around these choices, and a regression discontinuity design, we estimate that the average salesperson places a value of $27,000 on admittance to the "Sales Club." We also show that admittance to the "Sales Club" carries no identifiable benefits in terms of future sales, commissions or job mobility, suggesting this $27,000 valuation is composed entirely of non-monetary factors. Since male salespeople and those with higher tenure value the award significantly more than female salespeople or those newer to the organization, we suggest that a desire for competition, and not a drive for status or legitimacy in the organization, may underlie these results.

Citation: This summary is based on an unpublished article by Ian Larkin, Assistant Professor, Strategy, UCLA Anderson School of Management: September, 2012

Full Title: (2012) Paying $30,000 for a Gold Star: An Empirical Investigation into the Value of Peer Recognition to Software Salespeople

Availability: The full text of this article is available on request to Ian Larkin at: ian.larkin@anderson.ucla.edu

Overview: Much has been written about humankind's universal need for recognition and respect; from Maslow's Hierarchy through Deci & Ryan's Self-Determination Theory and more recently, from Lawrence & Nohria's Four Drive Model of Motivation to the 2016 book "Primed to Perform" (which portrays the pursuit of status as a powerful but negative motivator). For better or worse, the admiration and respect of our peers, neighbors, and even strangers exerts a powerful pull on nearly everyone (including most of those who claim not to care about what others think). Evolutionary biologists and neuroscientists would no doubt chalk this up to our genetic algorithms. Early on, our status in the tribe meant survival, or at the very least, it was a large determinant of whether we might pass on our genes. The subject of this summary is Ian Larkin's fascinating study of a modern tribe of software salespeople. His findings suggest that little has changed in the past 70,000 years or so. People, it seems, care very deeply about their place in the tribe. They (and especially men) will compete vigorously for recognition and respect from their peers and pay large sums to achieve it.

Summary

A large software vendor employs hundreds of salespeople compensated mostly through commissions. Standard commissions are 2% of sales, but they accelerate toward the end of the quarter based on accumulated sales. A salesperson who combines several sales into one quarter stands to earn commissions up to 20 times more than base commission.

Each year, the firm recognizes the top 10% of salespeople by including them in its "Sales Club." Members of the club get a long weekend in Hawaii or the Bahamas (worth about $2,000), a gold star on their business card, and, presumably, the admiration and/or respect of their peers. It is important to note that membership in the Sales Club does not predict greater future sales nor any tangible career benefits, such as a higher promotion rate.

At the end of the third quarter each year, the firm announces the current rankings, letting salespeople see how likely they are to end up in the top 10%. This typically leaves several dozen of the hundreds of salespeople in the firm on the cusp. If they close enough deals in the fourth quarter, they'll get into the Sales Club. Within this group, about half each year also have big repeat contracts almost certain to close in the first quarter of the following year. If they push fourth quarter sales into the first quarter of the next year, they'll trigger large accelerators and earn a lot more in commissions. This "conflicted group" is the focus of the research.

** Following the experiment, the vendor placed a hold on further research using its data. The vendor recently agreed to lift this embargo.*

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PRACTITIONER SUMMARY: $30,000 FOR A GOLD STAR

The conflicted group is conflicted because they face competing incentives: a) to get into the Sales Club by closing as many deals as possible in the fourth quarter, or b) to push sales to the first quarter of the following year to trigger the accelerators and earn more commissions. Through a rigorous multi-year analysis and using various statistical methods, Larkin and team discovered which of these incentives exerted more pull, and to what degree.

Results

- The conflicted group was far more drawn to the non-cash, intangible reward (the Sales Club) than to the cash reward (accelerated commissions).
- On average, conflicted group members were willing to forego a remarkable $30,000 in commissions in pursuit of membership in the Sales Club. This represents about 5% of pay (the top 10% of salespeople earn, on average, $500,000 per year).
- Men, on average, were willing to give up $36,000 in commissions to get into the Sales Club, women, $15,000.
- Tenured, past high-performers were much more likely to work hard to close deals in the fourth quarter (and thereby forego accelerated commissions to get into the Sales Club) than historically average performers and relative newcomers to the firm. The latter were more likely to pursue the commission accelerator by pushing sales into the first quarter of the following year.

Key Findings

- The study examined data involving hundreds of salespeople over a six year period between 1997-2002. Multiple alternative explanations were explored using statistical techniques against control (placebo) groups. Larkin concludes with great certainty that people "put a significant value on peer recognition, even if it does not lead to better career success as measured by future pay, promotions or mobility."
- Larkin also concludes that, in this case, it is competition that is the greater motivator than status. He bases this finding on the fact that men in the experiment – who in the contest were more competitive for the status than women – pursued the Sales Club far more aggressively than women as evidenced by the amount they were willing to forego to get in.
- Larkin speaks briefly to the wisdom of such incentives. He points out that while the Sales Club incentive costs the employer almost nothing, yet generates enormous effort in many salespeople, it may also encourage "unhealthy competition" and discourage good citizenship behaviors generally. Larkin suggests this is a question for further research.

Actionable Take-Aways

- Nearly everyone needs recognition and appreciation to perform at their best. Peer recognition programs are proven effective in creating a "culture of appreciation." This research dramatically underscores the motivational power of peer respect and admiration. Organizations should take heed – people work very hard (albeit to different degrees) to receive recognition, which is essentially free to the employer.
- Each person is unique. While the need for appreciation and respect may be universal, the degree to which people need it varies enormously. In this experiment, men need it more than women, and experienced, high-performers need it more than new salespeople and average performers. Design programs that address both human universals and universal human uniqueness.
- Take great care in designing programs like the one in this study. As Larkin suggests, the Sales Club program appears to deliberately incite end-of-year competition. Information

about sales rankings is withheld until the end of the third quarter, then released. A certain segment of those who are on the cusp then swing into high gear to get a spot in the Sales Club. The damage, if any, that they do along the way remains an open question. As firms rely more and more of the softer benefits of work – the culture and climate – to attract and retain top talent, and to differentiate from the competition, one can only wonder what this alpha male competition does to overall morale and the corporate culture.

Question & Answer with Dr. Larkin

Q1. Do you think the findings in this study would be as powerful (proportionately) for workers earning low wages and whether they hold outside of sales?

While there's no study that quantifies the value of peer recognition to employees making less money, there are a lot of studies showing peer recognition matters to all types of employees, regardless of salary. For example, co-authors and I have a paper in Organization Science that shows that some industrial laundry employees – making only a little above minimum wage – reacted very negatively to a new award that they perceived unfairly recognized employees who had not performed as well as they had. Their productivity went down after the award was introduced, which due to the bonus structure of their wages, cost some employees money.

The finding that employees value peer respect holds across many job categories. Salespeople may be particularly competitive and conscious of peer recognition and relative ranking, but the average employee in any job cares about how peers view them.

Q2. Does the academic consensus, based on research, conclude that women are less competitive than men?

The finding that women are less competitive than men is incredibly robust and has been replicated in laboratory and field settings dozens of times, but the message is also nuanced – it doesn't hold for every kind of task or job. And of course, this is an average or median effect. It doesn't hold for all women. Sales jobs tend to disproportionately skew towards males (with some exceptions, for example pharmaceutical sales), which may explain why women valued the award less in this setting.

More Questions?

Professor Ian Larkin is a member of the IRF's Academic Network. He welcomes your questions and comments about this and other research he has conducted.

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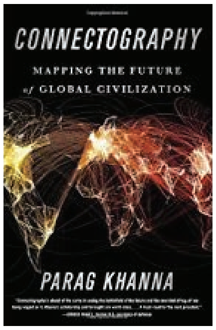
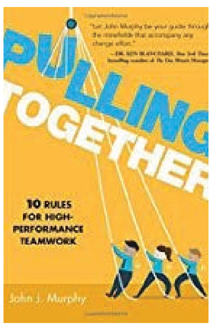
Bio | Other Research

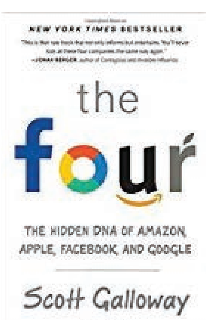
BOOKS REVIEWED & RECOMMENDED



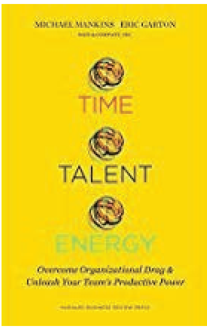
Author and well-known geopolitical analyst Parag Khanna repeatedly drives home the message that what connects us matters more than what divides us. His message resonates, especially now as populist movements and anti-globalization sentiments threaten to reverse the benefits of freer trade and more open borders. But as Khanna argues, connectivity has a powerful momentum that will quickly reverse isolationist trends. In the workplace, it's the connected people and firms that out-compete the rest. Leaders know that their route to prosperity lies along the social networks and global supply chains that form the modern "Silk Road," connecting today's most successful and relevant cities, countries , and organizations. *Connectography* will appeal to politicians, business leaders, economists, and anyone else who seeks a contemporary interpretation of global political, economic, and business dynamics – one grounded in reality rather than rhetoric.



This very concise guide to better teamwork packs a fair bit of punch in under 80 pages, many of which contain illustrations. Author John Murphy's "rules for high-performance teamwork" emphasize a cultural shift in which organizations and the people in them begin to orient away from an emphasis on individuals – away from rewards and recognition that award individual accomplishments – and toward a team perspective. Murphy's rules are simple and mostly well-known. Distribute a copy of the book to each member of your team, then give them an hour to read it. Most will finish with room left over to answer some of the discussion questions included in the back. Don't let the book's brevity fool you though, implementing Murphy's ideas will take a considerable amount of time depending on your organization's current culture. A highly individualistic workforce or an overly political one will need considerable effort and persistence to set in the right direction. Murphy rightly emphasizes recalibration of performance goals and rewards, new traits to look for when hiring, and leaders who start the process by exhibiting the behaviors described in the rules first, before they demand the same of their teams.



Brief, funny and hip, *The Four* will have you constantly smirking, if not laughing outright. Galloway's irreverent style surely exaggerates the monstrous intentions of Google, Amazon, Facebook, and Apple, but he offers just enough credible-sounding 'inside baseball' to keep you believing and to cause you more than a little discomfort wondering what the Four will do with the information in your next post, purchase, or search. As a business professor and Internet-age serial entrepreneur, Galloway has the "cred" to know what he speaks of when he warns that Facebook just might destroy our civilization. At the same time, you might feel that he's making somewhat too strong a case for the bad these firms do over the good. That said, Galloway's own reverence and admiration for Zuckerberg, Jobs, Bezos, and Schmidt comes through too, making *The Four* a valuable book, if only to balance your own views of these new titans of industry.



Though mostly unoriginal, *Time, Talent, Energy* brings together the critical elements in creating a high-performance culture. The authors' findings, consistent with an enormous volume of material from the past twenty years or so, argue that organizations should empower employees, remove obstacles to their performance, hold them accountable, motivate them, and support them through inspiring leadership. By bringing the three pillars of time management & efficiency, superior talent management, and employee motivation & engagement together in one volume, the authors perform a service. They ground their advice in the conventional wisdom for the most part, so don't expect anything revolutionary. In only a few instances do they provide enough detail for concrete action, but they provide valuable food for thought and planning. We believe that those familiar with books about performance management, motivation, and employee engagement will find this a concise and compelling refresher. For those new to the field, it offers an excellent place to start.