

Winning the War for Talent: Modern Motivational Methods for Attracting and Retaining Employees

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Abstract

Given the struggle that many organizations face hiring and retaining talent in today's tight labor market, it is critical to understand how to effectively reward employees. To address this question, we review relevant evidence that explains the importance of workplace rewards and recognition. Based on a review and synthesis of the current literature, we make the case that organizations should move beyond salary and traditional cash rewards to place greater emphasis on nonpecuniary, tangible and intangible rewards and recognition initiatives. We further highlight the importance of aligning rewards with universal psychological needs. Finally, we discuss the need to conduct more research to understand when and for whom cash and noncash rewards increase intrinsic motivation, organizational commitment and optimal functioning in order to improve the design and implementation of existing reward programs.

Keywords

rewards, total reward strategy, incentives, recognition, motivation, psychological needs

Learning how to optimally reward employees matters for the bottom line. U.S. companies allocate more than one fifth of their budgets to wages and salaries, spending between \$38 and \$77 billion on cash rewards and incentives each year.¹ In addition to cash rewards, U.S. companies spend between \$46 and \$90 billion each year on tangible non-cash rewards, including gift cards.^{2,3} Despite these enormous expenditures, more than 80% of American employees report that they do not feel recognized or rewarded.⁴ Additionally, about 40% of the employees surveyed in the study above reported that they would work harder if their contributions were more widely recognized. These

statistics suggest that the mere act of providing a reward is not sufficient.

Indeed, compensation and reward programs often fail to positively motivate workers or to elicit better performance from employees at least in part because companies struggle to understand what employees want and why.⁵ The latest data suggest that most employers motivate their employees suboptimally, using direct extrinsic motivators like money and prizes as enticement, or “incentives,” for future actions, rather than as indirect “rewards”

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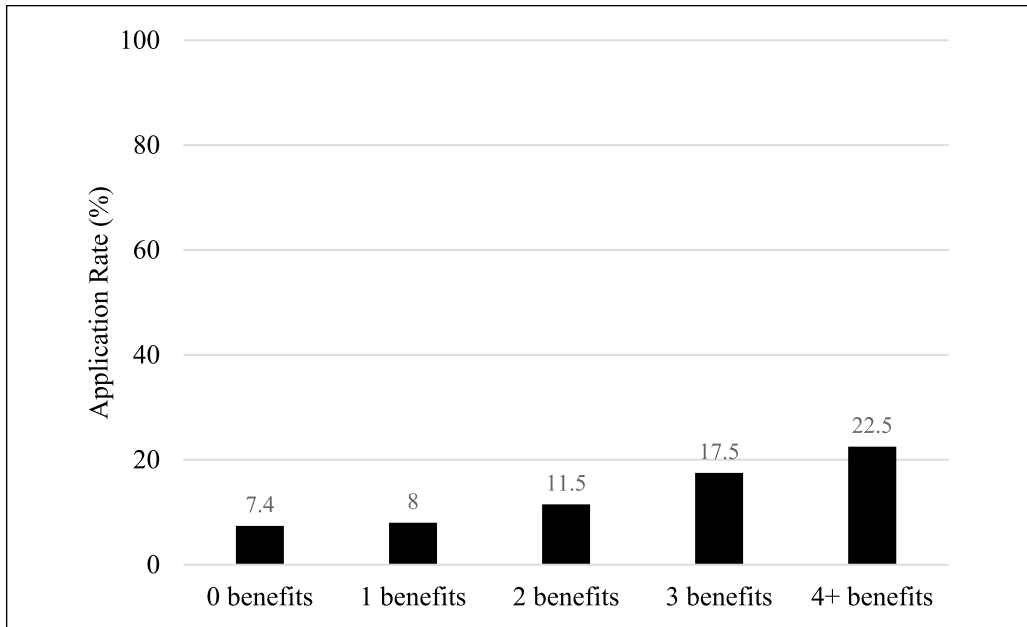


Figure 1. Application rates for jobs correlated with number of benefits described.

that convey appreciation and recognition *after* a desired behavior has been achieved.⁶⁻⁹ To motivate and reward employees optimally, managers should gain a better understanding of the types of *rewards* that employees are looking for at work.

Today, jobs are increasingly perceived as core to one's self-identity.^{10,11} For many employees, a job is not only a paycheck: Employees put considerable thought and effort into deciding where to work and why.¹²⁻¹⁴ Many employees seek meaning as much as, or even more than money.¹⁵⁻¹⁹ Considerations about meaning versus money may be especially important to the newest generation of employees. Members of the "Millennial Generation" and "Generation Z" appear to care more than older workers about certain intangible rewards such as career advancement, skill training, social connections and company purpose.²⁰ Similarly, the newest generation of workers strive to work where they feel that their input makes a difference to customers, colleagues, peers and supervisors. At the same time, meta-analytical research has shown that as employees age, they become more intrinsically motivated to find personal

meaning in their work.²¹ Thus, the latest research suggests that a broad range of the employee population are motivated as much by meaning as they are by money.

Why is this knowledge relevant for organizations? With U.S. unemployment rates hovering around 4% overall and just 2% for workers with bachelor's degrees or higher,²² organizations face growing competition to attract and retain top talent. Mounting evidence from data generated by firms such as Appcast and Glassdoor (which both deal in high volumes of job advertisements) illustrate the fact that offering and describing noncash tangible and intangible rewards, such as travels, career development opportunities and work flexibility, can provide companies with a market advantage when attempting to attract the best employees.^{23,24}

For example, in a 2018 study that we conducted with more than 92,000 job ads posted through Appcast, the more benefits an employer described in their job ads, the higher the application rates (see Figure 1). These findings held across industries. Moreover, in related research, when employers described their benefits in detail, such as family-related leave, employers

were more likely to form the impression that the employer cared about their employees. This concern translated into a greater number of applications even when the employers' total compensation—that is, salary plus benefits—was lower than competitors who offered a similar compensation package, but did not provide a detailed description of their benefits plan.²⁵

Following from these results, it becomes clear that in an era where an increasing number of employees—junior and more experienced—seek meaning, purpose and social contribution, an organization's ability to offer employees more than a transactional relationship based on money and tangible rewards can distinguish it from its competitors (see also Baeten & Verwaeren²⁶ and Brown & Reilly²⁷ for similar arguments). Thus, organizations should focus on clearly communicating the purpose and meaning behind the tangible rewards that they offer.

Building on these findings, we argue that employees seek more than money; hence cash and cash-like rewards are no longer sufficient to motivate employees. Rather, rewards must be imbued with meaning, purpose, appreciation and intention in order to avoid feeling like empty gestures or mere transactions.²⁸⁻³² This is especially true in the current era of low unemployment where employees have many options available to them. To provide evidence for this argument, we begin by reviewing evolving trends in the use of tangible cash and cash-like rewards such as gift cards and vouchers to communicate appreciation and recognition³³⁻³⁸ (see the appendix for definitions of key terms). Next, we argue that organizations should help employees achieve a sense of meaning and purpose at work through all types of rewards offered, by increasing recognition *and* appreciation as part of their total reward strategies. We conclude by discussing future research needed to support the effectiveness and understanding of well-designed reward programs.

Do Cash Rewards Still Motivate?

A large body of research demonstrates the positive relationship between cash and cash-like reward programs and performance.³⁹⁻⁴³

Meta-analyses of lab and field studies show that the installment of such programs can significantly affect productivity at both the individual and team levels.⁴⁴⁻⁴⁶ For example, many studies in the services and sales industry point to a positive association between cash rewards and employee performance, at least in terms of performance quantity, as indicated by greater sales and improved customer service.⁴⁷ Recent field studies in the manufacturing sector show that cash awards and gift cards can increase daily productivity levels.^{48,49}

However, the effectiveness of using cash and cash-like incentives as motivators appears better suited for work that is measured quantitatively, as opposed to work that is measured qualitatively, as is the case for most work in our modern knowledge-based society.^{50,51} Using incentives such as money and cash-like rewards can undermine employees' intrinsic motivation, in a phenomenon that some academics have labelled as "a motivational shift" and that others describe as "crowding out." These effects often arise when cash is used as a direct incentive to motivate complex and/or creative work.⁵²⁻⁵⁴

To better understand this motivational shift, self-determination theory (abbreviated SDT) postulates that human motivation can best be described on a continuum that ranges from intrinsic to extrinsic motivation.⁵⁵ According to this theory, employees experience intrinsic motivation when they feel that the work they are engaging in is coherent with their identity, personal values and goals.⁵⁶ Hence, employees who are intrinsically motivated appreciate their job and volunteer discretionary effort, out of genuine enjoyment for what they do.

At the opposite end of the motivational spectrum, extrinsic motivation is described as originating from external sources, such as potential financial gains or other tangible rewards as well as from emotions such as pressure, fear, guilt⁵⁷ and competitive pride.⁵⁸ Employees who are motivated extrinsically engage in work in anticipation of expected status and/or financial return, such as their salary or paycheck. Consequently, they view their job as an accessory in achieving this end.

In this light, *for nonroutine, creative work*, direct extrinsic motivation is generally considered a less productive form of motivation that should not be pursued by employers.⁵⁹⁻⁶¹

In line with the arguments of SDT, using financial incentives as motivators with stringent performance contingencies and without appropriate recognition can increase extrinsic motivation and erode intrinsic motivation.⁶²⁻⁶⁵ Cash incentives may lead employees to focus on money rather than on their intrinsic interests.⁶⁶ Stated differently, pure cash performance incentives often encourage a transactional mindset among employees focused on speed and quantity as opposed to enjoyment and quality.^{67,68} Furthermore, cash rewards, including bonuses and stocks, can be taken for granted, creating an “entitlement effect,” which can reverse positive impacts dramatically if rewards are withdrawn or if they are not regularly increased.⁶⁹

This research does not, however, mean that cash rewards cannot help organizations reach performance goals.⁷⁰ However, cash rewards should be leveraged in a way to foster healthy forms of motivation and avoid unhealthy ones. To this point, SDT proposes that external motivators such as cash rewards can be more effective if they are offered in meaningful ways. More specifically, cash rewards can be presented in a supportive way, as to positively foster employees’ feelings of recognition, purpose and meaning at work, instead of being used in an oppressive, controlling, transactional way, as to emphasize performance contingencies. Hence, although cash rewards are often necessary to motivate employees, they must be used carefully and in combination with other reward types. Alone, financial incentives are no longer sufficient to motivate workers; particularly those in complex, nonroutine, and/or creative work, and especially in a “seller’s market” (i.e., where “talent” is in short supply and high demand).

Moving Beyond Cash: The Growing Popularity of Noncash Rewards

It appears that organizations (especially successful ones) are aware of the potential effectiveness of using other types of rewards,

including noncash rewards. The Incentive Research Foundation (a research institute focused on workplace motivation and rewards, abbreviated IRF) conducts an annual Top Performer study, across a range of employer types. A recent IRF report reveals that between 80% and 90% of top performing U.S. firms use noncash rewards (e.g., travel, merchandise, gift cards) versus only 60% to 75% of their average-performing counterparts.⁷¹ Other research has documented a similarly sizeable increase in the use of noncash reward programs that include *tangible* rewards (e.g., merchandise gifts, time off, travel rewards, experiential rewards, restricted gift cards) as well as *intangible* rewards (e.g., choice of work assignments, flexible work options, greater autonomy, skills training and other developmental opportunities, employee involvement in decision making, optimal work environments and positive job design⁷²⁻⁷⁶).

Google is perhaps most famous for its non-cash rewards. Google offers a broad mix of rewards, including some related to flexible work—such as time off to experiment at work, free food and transportation and choice of assignments—which are well-known and effective.⁷⁷ Google is not alone in these offerings: A quick scan of the organizations listed in many “best places to work” lists reveals a near universal adoption of a *total rewards strategy*, in which salary and cash bonuses constitute only a portion of reward packages otherwise brimming with tangible and intangible rewards. These include opportunities to enact purpose and autonomy in socially meaningful ways that cover key facets of the workplace experience, such as opportunities for learning, career advancement, flexible work, strong and inclusive leadership and a collaborative culture. In the United States, as of 2016, 84% of organizations use tangible non-cash rewards—including travel, various merchandise and gift cards—representing an increase of almost 60% over the last two decades.⁷⁸

Gains in the use of noncash rewards may be due to an evolving understanding of the advantages of giving thoughtfully selected gifts over simply rewarding employees with

cash bonuses and financial prizes. A sizable and growing body of research finds that gifts (i.e., tangible noncash rewards) deliver equal and often greater returns to organizations in most circumstances compared to equivalent cash rewards.⁷⁹⁻⁹⁰ These findings point to the importance of the meaning of the reward and not just the reward per se (see Thibault Landry et al.⁹¹ and Thibault Landry & Whillans⁹² for related data that provides additional evidence for this point).

Field experiments in the sales and customer service industry have shown that employees often try harder when they are incentivized with tangible noncash rewards compared to cash rewards of equivalent value.⁹³⁻⁹⁵ For example, researchers recently studied two teams of carpet salespeople in consecutive sales tournaments. Team A pursued a cash reward while Team B sought equivalently valued noncash rewards, including luxury experiences. While there was no significant difference in performance between the teams in the first sales contest, the underperformers (those that did not win in the first round) on the noncash team performed significantly better—resulting in 2.66 times greater sales—in the second contest than losers in the cash team in the second round. Indeed, this group turned in the best performance of both groups in either round. Moreover, underperformers on the noncash team were twice as likely to watch a training video offered to all participants, indicating greater personal engagement in their work. The researchers hypothesized that people may simply desire noncash rewards more than the cash equivalent, making them feel more motivated to work harder.⁹⁶

In a similar vein, a 2017 study of almost 600 salespeople in one firm looked at the effect of replacing a mixed cash/noncash reward program with an equivalent value all-cash program. Over a 9-month period, measured effort dropped dramatically, leading to a sales decrease of 4.36%. This cost the company millions of dollars in lost revenue.⁹⁷ The authors provide two complimentary explanations: first, by only offering cash rewards, the firm may have inadvertently demotivated

salespeople who preferred noncash rewards. Second, the firm may have also discouraged salespeople who simply appreciated having a choice. This work is corroborated by similar findings in the lab where participants provide work of greater quality under noncash rewards, such as tangible prizes like pens and chocolate,⁹⁸ and in various other field studies show that choice in rewards matters for motivating higher performance.^{99,100}

Researchers argue that people may prefer tangible noncash rewards because they know they will spend a cash reward on something utilitarian, such as a basic necessity, like paying utilities, buying groceries and making car or mortgage payments.^{101,102} By making utilitarian purchases when given a cash reward, such rewards may become unmemorable and unemotional transactions. Consequently, these rewards could be harder to perceive as meaningful or enjoyable.¹⁰³ Employees may “mentally account” for cash rewards in the same way as their paycheck or salary.¹⁰⁴ In this way, cash rewards may lose any distinctive or memorable quality.^{105,106} In turn, employees may derive less meaning, enjoyment and appreciation from these rewards as they are perceived to be transactional.¹⁰⁷⁻¹¹⁰ Reward earners may feel guilty spending their cash reward on something equivalent to a luxurious or hedonic tangible reward.^{111,112} Yet the fact that certain rewards are hedonic in nature may be exactly what makes these types of noncash rewards more anticipated, talked about,¹¹³ desired¹¹⁴ and, thus, more powerful motivators.

Finally, tangible noncash rewards may also have the advantage of being more visible and/or shareable than cash rewards. For many people, discussing money, whether salary or cash rewards, remains awkward, if not socially unacceptable. On the other hand, employees who earn rewards such as electronics, outings or trips generally feel comfortable openly discussing and relishing them with others, both at work and/or outside of work. This “buzz” greatly benefits the organization offering the reward as it is likely to motivate a broader range of employees to work harder to earn them.^{115,116}

Imbuing Rewards With Meaning: The Importance of Recognition and Appreciation

Regardless of whether employees receive cash or noncash rewards, recent research on workplace rewards suggests that what matters when it comes to rewards are the *affective* reactions that these rewards elicit.¹¹⁷⁻¹²⁰ Many studies have shown that recipients of any type of rewards perceived as heartfelt, genuine and authentic feel more appreciated by their employers, which then translates in reciprocity—the intention to work harder for their organization.¹²¹⁻¹²³ Hence, to optimize their effect, all rewards, especially those applied to complex, nonroutine and/or creative work, whether cash rewards or tangible noncash rewards such as gifts, should be used as symbols of appreciation to reinforce meaning, purpose, and significance.¹²⁴

To do this optimally, rewards should be designed to spark, reinforce and enhance the positive emotions that coincide with feeling valued, invested in, included and appreciated. More specifically, both cash and noncash rewards should reinforce the primary message of recognition and appreciation.¹²⁵⁻¹³⁰ To this point, feeling appreciated and recognized in one's workplace is so vital that some studies have attributed as much as 80% of voluntary employee attrition to a lack of recognition and appreciation from their employer.¹³¹

This is unfortunate and can be avoided. Interviews conducted with employees reveal that many agree that a simple, heartfelt “thank you” in person or even by email from their managers, is enough for employees to feel like their contribution is valued. An authentic “thank you” (with specific reference to the employee being recognized) from a respected leader or colleague is often enough to motivate employees to try harder.¹³² This positive effect of descriptive feedback^{133,134} is well documented yet significantly *underused* in the workplace.

Illustrating this point, a 2003 report in the *McKinsey Quarterly* indicates that employees who earn sufficient salaries are more motivated by intangible rewards such as managerial praise

and one-on-one conversations with leaders than by cash rewards, stock options or even pay raises.¹³⁵ Highly paid employees also appear willing to forego significant earnings in exchange for social recognition from colleagues. In a 2009 study by professor Ian Larkin, for example, software salespeople earning on average \$600,000 per year were willing to give up commissions of up to \$30,000 to qualify for inclusion in the annual President's Club, an honor that bestows almost nothing financially but a great deal in terms of recognition and status.¹³⁶

Relatedly, in a controlled field experiment involving 180 workers over an 18-week period, researchers showed one group of workers a 3-minute video that personally thanked them for their contributions. The short clip was a powerful motivator—generating a 7% increase in performance as compared to a control group who did not view the video.¹³⁷ These findings dovetail with other research documenting the emotional gratification that people experience when shown the specific and concrete impact of their positive contributions.¹³⁸ Another recent study of more than 3,500 employees in customer service positions demonstrated that “fair, consistent and timely” manager and peer-to-peer recognition improved customer service quality and organizational citizenship behaviors.¹³⁹ At the organizational level, companies with strong strategic recognition programs (those that rank the highest in providing effective recognition) enjoy greater productivity, lower turnover and greater returns on investment than other companies in their industries.¹⁴⁰⁻¹⁴² Again, all of this points to the premise that in today's workplace, cash rewards should not be used in isolation, but in combination with noncash tangible and intangible rewards.

The Art of Giving and Communicating Genuine Recognition

While there is little doubt that appreciation increases motivation, there is less clarity about how to best communicate recognition.¹⁴³⁻¹⁴⁵ Communicating genuine appreciation is a

complex task, and the impact of appreciation can vary widely depending on how it is delivered. For instance, conveying recognition can vary based on the giver's (e.g., manager's) characteristics, such as their skills and abilities (e.g., empathy, perspective-taking), role and experience (e.g., hierarchy, status), as well as their personality and leadership style.¹⁴⁶⁻¹⁴⁸ Furthermore, conveying appreciation is highly relational in nature: It requires an in-depth understanding of the constituents of the social interaction. This knowledge can vary greatly across teams and across modes of interactions—from remote workers to face-to-face interactions with employees in the office next door, for example.

Giving recognition further requires an understanding of the specifics of the workplace, including contextual and cultural factors (e.g., size, industry, practices, activity sector, trends, country of operation and organizational/team culture, etc.) as well as the distinctive quality of the individual contributor's work. A great deal of research suggests that to be most effective, recognition should be accurate and specific, highlighting the recipient's unique contributions. As such, personalized praise given in a heartfelt, timely manner is normally more useful and meaningful than a general message sent to the whole unit or department.¹⁴⁹

Additionally, though intangible rewards such as verbal recognition can deliver powerful results, many achievements warrant a tangible cash or noncash reward to match the level of effort.¹⁵⁰⁻¹⁵² For example, a simple "thank-you" after an employee has worked overtime for weeks on an important project could feel hollow on its own. Thus, managers must learn how best to *combine* recognition with meaningful tangible rewards.

To help managers learn these critical skills, organizations must acknowledge the fact that managers occupy a critical role in fostering recognition in the workplace.¹⁵³⁻¹⁵⁶ Among the happiest employees, 95% state that their managers excel at providing feedback and recognition¹⁵⁷; in other words, a good manager positively contributes to their employees' desire to feel competent and appreciated. Managers are in a privileged yet delicate

position to create environments of appreciation that drive recognition and meaning at work.

Front line managers interact with employees more frequently than any other leader in an organization, and as such, they play a significant role in employees' work lives and career trajectories.¹⁵⁸⁻¹⁶¹ It follows then that adequate training for managers' evolving roles is a necessity. Indeed, the consequences of managers failing to provide adequate recognition are increasingly severe,¹⁶² With so many factors at play, most managers will need training in how to provide effective recognition, to show their appreciation for employees as a component of their day-to-day work and to drive recognition initiatives.¹⁶³⁻¹⁶⁵ This includes knowing when and how to use different tangible and intangible rewards as part of the reward programs in place in their organizations.

Deciding what type of rewards to employ is challenging, and broad strategies are likely to fail. To get to know their employees, organizations should facilitate an ongoing dialogue between front-line managers and their teams. Organizations must also conduct and analyze employee engagement surveys, measurement tools and pulse polls, and review findings from national and global employee surveys. As above, the struggle to hire and keep talent is more intense today (in late 2018) than it has been in almost two decades; thus, greater effort is warranted and required. Whether developing an employer brand or a recognition program, organizations and managers must learn the broad scope of rewards that their employees seek, determine what each individual employee wants and then deliver highly targeted messages and rewards that appeal to employees and truly motivate them—especially for top performers and those with "mission-critical" skill sets.¹⁶⁶⁻¹⁶⁸

Understanding How to Reward Employees as to Satisfy Their Universal Psychological Needs

Human motivation is multifaceted and complex. Our review of the current literature

points to the critical need to conduct more field research to test theories of human motivation to learn what really motivates employees. This research will help managers better understand when, why and how specific rewards convey feelings of appreciation and recognition, and motivate employees in more tailored and optimal ways. Specifically, we propose that more research should build on SDT).¹⁶⁹ By encouraging managers to think about rewards through an SDT lens, researchers and organizations alike will be better able to understand employees' experiences when they are offered cash and noncash rewards and recognition at work.

SDT has a 40-year history in making predictions about the psychological elements needed for individuals to feel deeply connected with what they do (see Gagné & Deci¹⁷⁰ and Gagné & Forest¹⁷¹ for two seminal papers on this topic). According to SDT, the essential psychological elements to foster strong, positive and healthy work environments revolve around the satisfaction of three basic psychological human needs: autonomy, competence and relatedness (sometimes described as autonomy, mastery and belonging). To satisfy their psychological need for autonomy, employees must feel that they have the freedom to choose how to do their work and they must feel that their work is in line with their personal values and interests. To satisfy their psychological need for competence or "mastery," employees must feel that they have the necessary skills to do their job and overcome any potential challenges they may face at work (e.g., through available training and development opportunities). Finally, to satisfy their psychological need for relatedness or "belonging," employees must feel that they can emotionally connect to colleagues, peers and supervisors in personally meaningful ways.

A great deal of research using SDT has shown that at work and outside of work, people who feel more competent, autonomous and connected to their peers thrive to a greater extent in their environments, including in their workplace, demonstrating greater commitment, engagement, performance and well-being.¹⁷²⁻¹⁷⁸

In one of the few studies applying SDT to workplace rewards, Thibault Landry and colleagues¹⁷⁹ found that when well presented—that is, as reinforcement of appreciation *after* an employees' achievement, instead of purely as a financial incentive for performance—cash rewards led employees to experience greater satisfaction of psychological needs in their workplace. Managers further rated these employees as more productive three months following the receipt of this cash reward. In a second set of studies, Thibault Landry and colleagues¹⁸⁰ found that when cash rewards were used to reinforce managers' recognition and appreciation of their employees' work, cash rewards positively contributed to employees' psychological needs for competence, autonomy and relatedness. In turn, employees reported feeling more motivated, more engaged and more committed to their workplace. Furthermore, employees were also more likely to experience greater well-being and to report lower turnover intentions.

Collectively, this evidence highlights the relevance of using proven motivational theories to understand how employees experience the rewards they are offered at work. Hence, based on the research reviewed thus far, a good strategy for organizations who wish to motivate employees is to offer a range of tailored cash and noncash tangible and intangible rewards that satisfy these universal psychological needs. The more that managers learn how to best satisfy employee's psychological needs through rewards and recognition, the better they will be at crafting effective rewards.^{181,182} In this light, the efficiency of reward programs in general will depend on the extent to which the rewards offered satisfy recipients' needs for autonomy, competence and belonging, and thereby foster feelings of recognition and appreciation.^{183,184}

Assessing the Effectiveness of the Reward Programs Currently Used

Tied to the need to better understand employees' motivation is the need to conduct more

rigorous field research on this topic. This recommendation is based on the fact that only a minority of organizations measure the effectiveness of their reward programs, and when they do, they focus almost exclusively on measuring financial and tangible outcomes (often indicated with performance quantity) while neglecting the measurement of other important, yet less tangible outcomes, including engagement, citizenship behaviors and performance quality (see Schweyer et al¹⁸⁵ for a similar argument).

Two large studies conducted by the Incentive Research Foundation (IRF) point to the fact that reward program measurement tends to focus mostly on hard financial impact and measures such as sales, revenue, market share, gains in customer loyalty and customer acquisition.¹⁸⁶⁻¹⁹⁰ In two separate IRF surveys of U.S. firms conducted between 2015 and 2017, only 47% included any measures of the nonfinancial, intangible impact of reward programs, such as employee engagement. In another IRF study of firms in the United Kingdom in 2016, more than a third of British firms surveyed *hoped* that their programs would improve morale, wellness, organizational culture and innovation. Yet not a single firm in this study measured these impacts. In our own research of 139 U.S. firms on behalf of the IRF in 2018, employee satisfaction was the only nonfinancial outcome that was commonly measured (27% of respondents) in reward programs.¹⁹¹

We propose that organizations should conduct more research examining the nonfinancial impact of reward programs. The field would gain insight from more random-selection, control-group experiments to test the effectiveness of incentive, reward and recognition programs in increasing engagement, citizenship behaviors and nonfinancial outcomes—the very things that differentiate the most successful firms today, allowing them to attract and keep top talent (see Blank & Whillans¹⁹² for a similar argument). For example, when a reward program is well designed, firms should expect improvements in teamwork, collaboration and learning, leading to increased employee engagement. As

such, organizational citizenship behaviors and participation in non-core business activities should be examined in relation to such initiatives. Participation in the discretionary “extras” can provide a good indication of the health and culture of an organization.¹⁹³⁻¹⁹⁶

To conduct this research, organizations could leverage internal networking software to directly observe if implementation of reward programs leads to increases in connectivity (e.g., through organizational network analysis and/or analysis of activity in peer-to-peer platforms), knowledge-sharing (e.g., by tracking activity in corporate social networks or intranets), idea-sharing (e.g., by tracking hard-copy or online suggestions), peer recognition (e.g., through online recognition software) and amount of e-learning accessed and completed (e.g., through Learning Management Systems). By examining the financial, tangible and nonfinancial, intangible impact of reward programs, organizations can demonstrate the returns on investments (or ROI) of these programs, informing decisions on continued use or expansion. As Figure 2 implies,¹⁹⁷ organizations anticipate returns from their investments in employee reward programs. Reward programs should drive tangible returns, but they should also deliver value to the organization through *intangible* returns by signaling the behaviors and actions the organization wishes to prioritize, such as increased innovation and employee engagement.

Conclusion

In today’s workforce, rewards—including cash and noncash rewards—are ubiquitous and necessary. However, unless rewards are selected and presented in a meaningful way, and are designed to convey recognition and appreciation, rewards are not sufficient to motivate employees who increasingly seek autonomy, mastery and connectedness at work. Accordingly, understanding how best to motivate employees in today’s tight job market involves a focus that moves beyond cash and cash-like rewards. Organizations will profit from moving toward well-designed

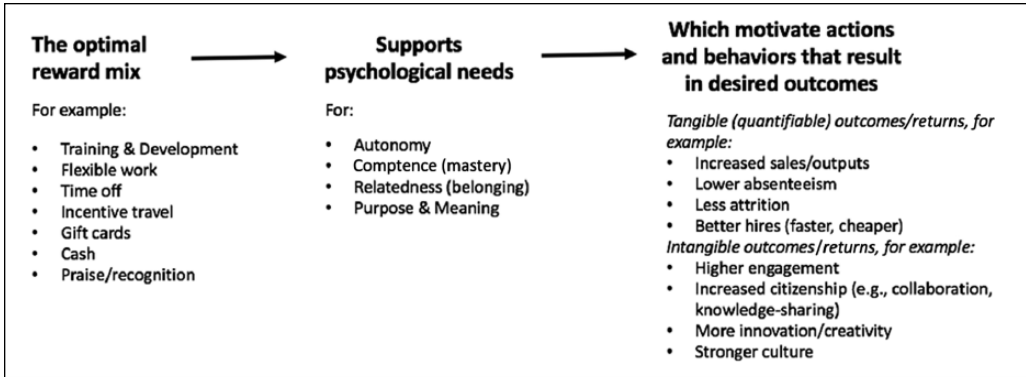


Figure 2. The rewards value chain.

total reward strategies that include cash, non-cash tangible and intangible rewards that are designed to convey recognition of an employee’s contributions, generate optimal outcomes and foster a highly engaged workforce. This is especially important when work is complex, non-routine, and/or creative, which describes most work available in advanced economies today.

We propose that to understand how best to motivate employees, managers and scholars alike should turn to research on self-determination theory. Building on this literature, rewards—whether cash or noncash—should be used to support and reinforce the universal, positive human needs for autonomy, competence and relatedness. More research is needed to examine the specific mechanisms by which different reward types and combinations contribute to employees’ experiences at work as well as to identify what rewards are motivating for whom. In doing so, leaders will be better equipped to promote the health and well-being of all of their employees.

Appendix

Various terms specific to the reward, recognition and incentive literature are used throughout the article and are defined as follows.

Cash reward: Any financial reward, including cash and cash equivalents (e.g., stock options).

Tangible noncash reward: Any reward that is not cash or cash equivalent, but has a tangible or financial value (e.g., incentive travel, merchandise, gift card).

Intangible reward: Any reward that has no financial or tangible value (e.g., verbal or written recognition).

Benefits: Any advantage that is provided by the employer in addition to salary with or without financial or tangible value. Benefits often include tangible cash bonuses, tangible noncash rewards and intangible rewards.

Total rewards strategy: An emerging trend in compensation practices whereby organizations offer a broad variety of tangible and intangible rewards in addition to salary and cash rewards.

Recognition: Recognition is typically offered after a behavior or achievement. All rewards can be used as forms of recognition. Recognition can be provided in the form of cash or tangible noncash rewards, and/or in the form of intangible rewards such as public acknowledgement and appreciation for work done well.

Incentive: An incentive is typically presented beforehand to motivate a person to act or exhibit a specific behavior. An incentive is used to motivate future behavior, while a reward is given based on past behavior. In this light, incentives become rewards when employees receive them. Hence, incentives can be constituted of

more than one reward type. For example, an employer may choose to incentivize its sales cycles with a cash reward (e.g., bonus) or a tangible noncash reward (e.g., travel), and an intangible reward (e.g., written recognition).

Tangible returns: Any tangible and financial measure of a program's effectiveness. As part of a company's Return on Investment analysis, tangible returns also include outcomes such as absenteeism that can be converted to a financial metric.

Intangible returns: Any intangible and nonfinancial measure of a program's effectiveness. This includes improvements in employee morale and engagement, customer satisfaction and citizenship behavior. Although more difficult to measure and assign a dollar value, and less commonly assessed, these returns are significant and should be incorporated in a company's Return on Investment analysis.

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Notes

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Allan Schweyer is the chief academic advisor for the Incentive Research Foundation where he conducts research into workplace motivation and the application of incentives, rewards and recognition. He is a well-known author and speaker on topics of human capital management, including employee engagement, behavioral economics in the workplace, and HR technologies. He is the co-founder of the Human Capital Institute and current president of TMLU, an online learning academy.

Ashley Whillans obtained her PhD in Social Psychology at the University of British Columbia. Currently, she is an Assistant Professor in the Negotiation, Organizations & Markets Unit at the Harvard Business School, teaching the Negotiations course to MBA students. Broadly she studies how people navigate trade-offs between time and money. Her ongoing research investigates whether and how intangible incentives, such as experiential and time-saving rewards, affect employee motivation and well-being. She is also interested in understanding how best to leverage online marketplaces to create positive social change. She consults for private and for-profit organizations.