



AwardEmployees

... with the award they would choose for themselves.

Does Cash Make a Good Incentive or Recognition Award?

The debate of using cash or non-cash as an incentive or recognition award has gone for years. This article gives you the advantages and disadvantages to help you make the decision for your organization.

The Compensation Mix

- Both cash and non-cash have their places in the compensation mix.
- Cash provides:
 - Basic needs and wants: security and physical comfort
 - Means to prepare for the future
 - Compensation for work performed
 - Incentive to perform at a level to stay employed
- Cash does not provide:
 - Lasting recognition and trophy value
 - Strong emotional reasons to improve performance
 - Flexibility, to keep it from being confused with basic compensation.

Everyone on the surface prefers cash. The reality is, however, that cash can be an ineffective motivator. Although it can satisfy certain monetary demands, it does not energize most people to reach beyond the basic job requirements.

Compensation is a contract that brings people to work but doesn't necessarily motivate them to work above their satisfaction level.

Ideally, in the compensation mix, both cash and non-cash should be offered... a salary/benefits package that adequately compensates individuals for the work they do and a line-up of incentives that recognizes and rewards their above-average performance or a special achievement.

- To improve performance (change behavior), companies must provide positive, immediate and certain consequences for improved behavior.
- Cash is positive...
 - but not immediate, because it usually shows up on a paycheck well after the desired performance.
 - and not certain, because an individual's personal performance cannot guarantee earning a cash award.
- And most importantly, cash does not provide the opportunity to *celebrate* the earning of the award.
 - Cash earnings are generally viewed as a private matter to the individual.
 - There is no trophy value.

Employee surveys consistently say that what people really want is to be recognized for making a contribution to the job. Because of their nature, non-cash awards have intrinsic recognition value.

Non-cash awards put the recognition back into the award.

The advantages of non-cash awards fall into these general categories:

- Trophy value...something to be proud of, to show off
- Need fulfillment...separate from other income; can be used only for awards
- Promotability...wide array of choices provides something for everyone
- Comfort level...provides the intangibles of recognition and reward
- Flexibility...may be used at any time, with any participating vendor, and may be supplemented with cash
- Family involvement...wide selection involves everyone in the award process
- Financial rationale...removed from base compensation; may be awarded at a lower rate and still maintain impact

Let's look at each and compare the impact of cash and non-cash incentives...

Non-cash

- Definite trophy value
 - Tangible symbol of success
 - Visual reinforcement of achievement
 - Socially more acceptable to talk about merchandise or a trip than money
- Long-term association with award giver (client) due to trophy value

Cash

- Minimal trophy value
 - Non-tangible
 - Difficult to show off (cash income is considered confidential)
 - Boorish to brag about cash
 - Most people cannot remember what they bought with their bonuses
- Transient association with award giver (client) due to minimal trophy value

People who have earned a merchandise award remember how they earned it (and from whom), years after a cash bonus is spent and forgotten.

Reference: *Capitalization on Human Assets*, by Jerry McAdams, CCP, and Elizabeth J. Haw, CCP
Copyright 1991 American Compensation Association

Non-cash

- Appeals to psychic income needs (social acceptance, increased self-esteem, peer respect)
- Guilt-free enjoyment of award

Cash

- Often used to satisfy basic monetary needs (security, comfort, to pay bills)
- Guilt factor if not used for basic needs

PSYCHIC INCOME NEEDS:

<u>Self Realization:</u>	Fulfillment of potential
<u>Personal Esteem:</u>	Honor, job importance and title
<u>Social Acceptance:</u>	Love, togetherness, teamwork, recognition By family, friends and neighbors

MONETARY NEEDS:

<u>Security:</u>	Security from economic and physical danger
<u>Physical:</u>	Comfort: Food, drink, clothing and shelter

To believe that cash is king is to err dramatically; study after study places money between fourth and seventh on the motivation scale, never first.

Reference: *Motivation and Personality, Second Edition*, by Abraham Maslow
Copyright 1970 Harper & Row

Non-Cash

- Highly visible, promotable
 - Appeal is emotionally tied to existing wants, needs and interests
 - A picture of camping equipment or a description of an award trip can instantly evoke pleasurable memories or positive feelings of anticipation; not so with an illustration of a \$100 bill
- Perceived value of award is higher due to social and emotional attachments associated with the item
- The individual can actually assign a greater value to the item than its worth as he or she anticipates its use or experience; the actual dollar value of the award becomes secondary

Cash

- While cash has a universal value, its appeal is cold, non emotional and diffuse
- A dollar is a dollar. A \$100 bill can never have a higher perceived value than \$100. The potential earner draws a clear relationship between what is being asked of him or her and the cash award. It's easy to decide whether the award is worth the effort.

Money is important, but most people do not work for money ... they work for the things money will buy.

Reference: *Organizational Performance & Rewards*, by Jerry McAdams, CCP
Copyright 1991 American Compensation Association

Non-cash

- Moves people beyond the comfort level of income – the point at which they will not expend additional energy for incremental earnings once basic monetary needs are met
- As an award, it is separate and distinct from regular compensation and therefore considered to be an activator
- Provides the opportunity to earn things money cannot buy: recognition, self esteem, social acceptance

Cash

- Additional cash may satisfy an individual's comfort level. If the opportunity exists to earn at an accelerated rate, a person may actually work less and maintain their original income level
- Confused with compensation
- May become an expected part of one's standard of living, leading to negative perception of a cut in pay when the incentive is withdrawn.

Past a certain threshold, extra money is not sufficient to justify extra effort.

Non-cash

- Provides a focus for performance improvement without being incorporated into regular compensation – not perceived as an entitlement
- Allows program to be adjusted, changed or terminated without significant negative reaction

Cash

- Potential for being considered part of expanded compensation plan – leads to entitlement mentality and change in standard of living
- Because payment is cash (like compensation), adjustment or termination results in a negative reaction

If an organization thinks it has designed the perfect plan – that it cannot fail – then cash awards may be appropriate. If not, the organization should implement non-cash. It'll get a bigger bang for its buck with less risk.

Non-cash

- Award selections are often made by members of the earner's family
- Award opportunities are easily visualized and supported by the family
- The motivation to do something for one's spouse or children is a powerful, energizing force.

Cash

- No family participation in selection of award; less support at home for efforts
- Not easily shared; too abstract to be made real for family members
- Cash award is often lost in family budget – cash recognition ends up in the hands of the grocer or electric company

If you promised your bright-eyed eager 10-year-old a new bicycle, you can't take home half a bicycle. People go the extra mile to earn non-cash.!

Reference: *You Just Can't Take Home Half A Bicycle*, by Virgil E. Boyce
Copyright 1964

Non-cash

- Cost-effective
 - 3:1 return on investment when compared to cash: each dollar of increased performance costs about 4 cents in non-cash awards and 12 cents in cash awards
 - Successful non-cash programs cost 3% to 5% of annual compensation

Cash

- More expensive
 - Programs must equal 5% to 15% of annual base compensation to be effective

The numbers leading up to the argument for a 3:1 return of non-cash over cash would have to be reversed by 200 percent before cash and non-cash are even equal. And you still have the additional non-cash benefits of trophy value, need fulfillment, promotability, comfort level, flexibility and family involvement.

Reference: White House Conference on Productivity, 1992; 1600 organizations representing more than 8 million employees; A Research Project of the American Compensation Association.

"Just give me money ... that's what I want."

The Beatles sang about our passion for cash more than five decades ago. And in many ways, things haven't changed. Ask people what type of reward they want, and they'll say "cash." But as research has demonstrated repeatedly, cash rewards don't motivate extra effort.

Why?

Because when companies try to motivate their employees and/or their distribution partners using additional cash, the "reward" is typically thought of as compensation and is spent on necessities.

A survey conducted by Wirthlin Worldwide (March 1999) of 1,010 people who were asked how they spent their last cash reward, cash incentive or cash bonus. Their response was as follows:

- 29% said...paid the bills
- 18% said...don't remember
- 15% said...spent on household items
- 11% said...bought gifts for the family
- 11% said...it was put into savings
- 9% said.....they purchased a special treat
- 5% said.....they took a vacation
- 2% said.....something else

Cash or non-cash? In the final analysis it depends on what you are trying to accomplish...compensate or motivate?