

Why Rewards Matter – Rewards That Produce Results

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\$50 is \$50 is \$50, regardless of whether it comes in the form of cash, gift card or sunglasses... right? Wrong. The kind of reward someone receives makes an impact on their behaviour, and different kinds of rewards produce different kinds of results.

Based on science

Efficacy is the ability of something to produce a desired result. It relates to *effectiveness*.

THE EXTRINSIC REWARDS EFFICACY CONTINUUM



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On the left, the cash end of the continuum is quantitative and financial in nature. It puts people into a calculative mode and the reward leads to the question, “Is this a good deal?” That is, does the amount of cash equal the amount of effort I put in? This makes it less effective as a motivator because it removes most of the emotion out of the reward process. As soon as the reward changes into a cost-benefit analysis, you’ve lost your audience.

However, on the right end of the continuum are luxury goods and travel experiences. These prompt an emotional question of, “Do I want it?” When answering that question, you start to think of how soon you would use it, who you’d take with you or what colour to choose – all of which engage the imagination and a completely different side of the brain than the cash question.

The farther away from the dollar sign, the more effective the rewards become at changing behaviour. That is not to say that cash doesn’t work; it’s just that it is the least effective motivator unless you spend a *lot* of it.

Intrinsic and extrinsic motivation

In Dan Pink’s book, *Drive*, he focused on the importance of intrinsic motivation. Intrinsic motivations are those things that motivate us from inside ourselves. You don’t need a reward to get something done because you would get it done anyway. Unfortunately, in the workplace some people have it and some people don’t. It’s also incredibly subjective: it varies wildly from person to person and is more difficult to address and measure than extrinsic motivation.



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Extrinsic motivation, on the other hand, is important and commonly used throughout the workplace in a variety of forms. Importantly, non-monetary rewards perform better than monetary rewards in repeated studies. Across a variety of industries and job titles and income levels, studies have demonstrated that people simply perform better when the rewards are non-monetary.

Case study

A single group of employees had two rewards-earning opportunities at the same time. One was the opportunity to earn roughly \$100 per month in award points; the other was the opportunity to earn \$600 on a debit card each quarter. After analysing the spending habits of the group, the results showed that they treated the rewards dramatically differently.

- 85.6% of them saved their points for **luxury items** that were of roughly \$100 value.
- Those with debit card rewards spent the money on **vending machine items, fast food, petrol and groceries** with nearly 85% of those transactions under \$30.00.

Researchers have connected how much credit the company gets based on the degree to which the reward is hedonic and luxurious. In fact, your organisation gets **no credit** when an employee buys a soda, a litre of milk and a tank of petrol. That cash gets pooled with the rest of their available spending money and spent on day-to-day purchases. In contrast, when an employee uses a spa certificate or wears the new Apple watch, you are forever connected to that experience in the employee's memory.

What your employees want

With multiple generations, genders, nationalities and lifestyles in the workplace, it may seem that cash is the easiest one-size-fits-all reward to give. As you've just seen, cash is easy but it's also the least effective. To solve this challenge, give employees what they really want: choice.

Using a points-based program, your employees can earn points and redeem them for thousands of options across the rewards continuum.



Let them browse the rewards for items that speak directly to their emotions: the senior executive who wants to outfit a nursery for a granddaughter on-the-way; the developer who wants the latest gaming system, the graphic designer straight out of university who wants a set of real pearls, or the pet-lover who would love a Dyson vacuum for cleaning dog hair off the floors. All kinds of tastes and personalities will find just what they're looking for and connect it right back to the organisation every time they use their reward.

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High versus low earners

It may seem like high-salary earners would respond better to cash; after all, what could they shop for that they don't already have the means to get themselves?

The truth is, high-earners are still affected by the emotional pull of the right rewards. That's because of the way non-monetary rewards are categorised differently in our brains, called "separability." People separate their money into mental buckets and don't like to move it once it's been assigned. This means that if they have allocated \$100 for something they need, they aren't likely to move it towards something they want.

Non-cash rewards separate wants from needs; people can use their points to redeem for something they want rather than having to reorganise their buckets.

One other important benefit of non-monetary rewards is called "justifiability." When earning cash, people feel the need to be responsible with it and put it towards bills, daily necessities or even savings – all of which reduce the emotional benefits of motivation. By using non-cash options, people don't need to spend money on the reward, instead giving themselves permission to get something or do something that would normally seem too luxurious. They can indulge themselves guilt-free and justify the emotional experience of earning the reward.

The hardest argument

Ask your employees what they want, and they'll answer "cash!" However, that's the same as asking kids what they want for dinner ("pizza!"). They know what they want, but is it the healthiest choice? As leaders, it's your job to choose the reward that is most effective in getting employees to do what you're asking them to do. The more emotionally-engaging the reward, the more successful you'll be in driving that behaviour.

Compared to cash, non-monetary rewards have the benefits of:

- Sociability – the desire to share the experience or talk about the reward with your network
- Re-consumption – associating the earning experience with the use/memory of the reward
- Vividness – impactful, sustained memories of the reward

All of these attributes add up to a more effective experience that forms a positive connection with your organisation. From the effort it takes to earn, to the redemption experience and through the actual use of the reward, maximise the opportunity to engage with a continuum of reward options.

To learn more about how BI WORLDWIDE can help you inspire performance with the right rewards mix in your organisation, visit BIWORLDWIDE.com.au or email enquiries@au.biworldwide.com.

