Why Non-cash Awards Are More Effective Than Cash

Ask someone to work harder and they'll ask to be paid more. Everyone on the surface prefers cash. The reality is, however, that cash is an ineffective motivator.

A survey of corporations by the American Productivity & Quality Center found that sales incentive programs offering non-cash awards generated more tangible results than those offering cash. Several reasons exist why cash falls short as a motivational award. It has no trophy value at all. Once it is spent, it's gone. Often participants feel uncomfortable bragging about cash awards, but don't have any trouble discussing a trip they won or the features of their new TV. In addition, cash cost more, since its perceived value is exactly the same as its cost, and it promises no lasting association between the work, the prize and the sponsoring company.

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Although cash incentives can satisfy certain monetary demands, it does not motivate people to exceed established, comfortable levels of performance. Once subsistence needs are met with cash income, the need for psychic income takes precedence.

Psychic income provides things that money alone cannot satisfy – acceptance, recognition and personal esteem. A cash payment to a participant will often end up in the family bank account, with the funds going towards food or rent. Furthermore, most people feel guilty about buying gifts, luxury items or exotic trips for themselves for a job well done. They'll feel compelled to put their reward earnings into more practical use for their family (such as children's education, home maintenance, etc.).

This "guilt factor" associated with cash awards shouldn't be underestimated, as it plays a significant role in the overall experience you your incentive program creates for your audience. Think of it from this perspective: You reward with cash; your participants associate cash with compensation; compensation is used toward satisfying basic needs such as food and shelter. Cash awards force participants to make a psychological and physical choice between something they want versus something they need—an item of need versus an item of self-reward. And, rather than coming away with positive memories of the incentive, they are more likely to recall a sense of guilt regarding the experience.

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Because of their nature, non-cash awards have intrinsic recognition value, a lasting trophy value, and promote "guilt-free" spending. (next page)

Proof that Cash Isn't King

Recent studies by a leading tire manufacturer have uncovered astonishing results when comparing cash incentives to merchandise awards. They show that cash incentives are only **half** as motivating as non-cash awards. The following information is reprinted from *Incentive* Magazine:

> Tom Gravalos, manager of special accounts marketing for the Akron-based Goodyear Tire & Rubber Co., was constantly butting heads with upper management whenever he presented a proposal for an incentive program budget offering travel or merchandise. The bosses wanted cash and were pretty vocal about the reasons why: Everybody has to have money. Whenever you ask people what they want they always say cash. What could be more motivating than something that everyone already wants and needs?
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> In response, all Gravalos could offer were the usual arguments: Cash is considered income; cash has no trophy value or lasting effect, and cash has poor perceived value.
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> Unfortunately, Gravalos had no facts to support these statements. All he had was anecdotal evidence derived from feedback from his program participants and assurances industry organizations and trade magazines.
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> In fact, most available research supported the position that cash was a better motivator. In 1993, for instance, the New York-based Society of Incentive Travel Executives sponsored a survey of incentive preference on 534 employees of a nationally known insurance company and cash came in No. 1. And managers feel the same way. When polled, many incentive decision-makers also believe money is the reward of choice for incentive programs. In 1995, bonuses and other incentive pay rose by 33 percent according to a survey by Hewitt Associates, a New York-based compensation consultancy.
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> By 1994, after years of dancing around the issue in budget meetings, Gravalos had had enough. "I got tired of having to defend the decision to use incentives with anecdotal evidence," he says. "We run our company based on facts. We're quality-oriented and we test and analyze our products rigorously, yet in this particular part of the business we were relying on very sketchy facts to support a very expensive marketing strategy."
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> Gravalos was certain that non-cash rewards were more motivating than cash. So he decided to put it to the ultimate test. Gravalos ran a sales incentive program that rewarded half the participants with cash and the other with non-cash. And guess what? Those rewarded with non-cash produced results that were almost 50 percent greater than those motivated by just cash.
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> Gravalos documented the results in a research paper. It's part of a growing pool of hard evidence that suggests that non-cash rewards actually motivate both employees and consumers better than cash rewards.
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> Gravalos put those non-cash incentives to the test in a program to increase sales of the company's Aquatred® tires. The program was aimed at sales associates and managers at 900 company-owned stores and service centers across the country. The outlets were ranked in numerical order from best to worst in terms of sales, and then divided into two groups. The top selling outlet was placed in group A, the number two outlet was put in group B, number three in group A, number four in group B, and so on until the entire pool was divided. This assured that the test results would be free of impinging factors such as regionality and created two groups nearly identical in performance. The groups were communicated to equally through promotional pieces and periodic newsletters. One group was arbitrarily chosen to receive monetary rewards for every increment of 12 tires sold. (next page)

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The second group received and equally priced selection of merchandise and travel rewards. The latter offer was structured to plateaus with varying merchandise/travel options at each level.

The results achieved in the program, which was designed to operate for six months, were compared with sales in the six-month period immediately preceding the program launch. In addition, results achieved by each group were compared with those of the other group. Measurement was on the basis of units sold, as well as in terms of the ration, or mix of sales of Aquatred tires versus other lines.

The results of the program were startling even to someone as predisposed to non-cash awards as Gravalos. "I fully expected the non-cash group to perform better in the program than the cash group, but I was startled by how great the margin of difference turned out to be," he says. While the performance of both groups improved over the program period, the group motivated by the non-cash awards out performed the group motivated by cash by a margin of 46 percent. The non-cash group also produced a 37-percent greater increase in product mix sold, as compared with the previous six-month period, than did the cash group, which also experienced a modest increase in this area. And, most important of all, the cash group generated a negative return on investment (ROI) with a minus 20 percent ROI while the non-cash group generated a plus 31 percent ROI. In other words, for every dollar invested, the company got back 80 cents from the cash group and $1.31 from the non-cash group.

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The bottom line was that the non-cash program was able to show a significant profit with a program that distributed rewards for every increment of 12 tires sold while the cash program could not. The cash program would have needed a higher, -- hence tougher goal, which could have been "de-motivating." Add to that the fact that the cash awards were competing with the retail value of non-cash items bought at cheaper, bulk prices, which created a perception of higher value among the participants receiving them, although Gravalos is quick to point out that this is speculation and cant be proven.

Since this test, Goodyear has become firmly committed to incentive programs that offer non-cash rewards. "This test has given us the hard facts to comfortably make decisions on incentive marketing strategies in the future," says Gravalos. As a result of this experiment Gravalos feels even stronger about non-cash incentives than he did before. "I would have been prepared to accept it if cash had won out after all, cash is easier to deliver," he says. Anyone considering the use of non-cash incentives has to realize there's a greater commitment required than just delivering cash its more complicated. But you get better

performance. "If you had asked me three years ago what works better, cash or non-cash incentives, I would have given you my opinion, but no facts to support it. Now I've got some hard facts."

Why Non-cash Awards Work

Gravalos is not alone. Jerry McAdams from the American Productivity Center notes that alternatives to money are proving to be surprisingly effective in motivating salespeople, and non-cash incentives can be much cheaper. In a 1991 *Boardroom Report* article, McAdams noted that non-cash incentives – mainly travel and merchandise awards, cost only one-third as much as special cash bonus programs for the same results. Typically, cash bonuses cost about 12% of the sales they generate, while non-cash incentives cost 4%-6%. (next page)

But why do non-cash rewards motivate better than cash? In considering the probable cause it's important to understand how participants in an incentive program perceive the offers of rewards.

> Research has shown that the way the brain processes information is responsible for non-cash rewards having a greater impact on people than cash awards. Offers of non-cash rewards, such as those offered in the Goodyear program, are visualized or imaged by the right hemisphere of the brain. Such images or mental pictures trigger emotional responses that can be quite powerful.

Conversely, offers of monetary rewards are processed by the left hemisphere, which lacks the ability to create images. When a monetary offer is received, the brains lefts hemisphere assesses the information and determines whether the offer is sufficient, relative to the time or effort required to earn it. The emotional response is what drives behavior, not rational thought. With cash, it's reduced to one issue how much.

Of course if you offer enough money you can move the needle in most situations, but there's rarely enough money in a client's budget to **buy** performance. That's why you need the emotional response that only a non-cash reward can provide.

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Comparing Non-Cash Awards To Cash

Advantages of Non-Cash Awards	Disadvantages of Cash Awards
Creates a "tangible" symbol of recognition and reward for efforts	Disappears into the recipient's pocketbook
Provides a lasting reminder of their accomplishments and creates a positive association with the sponsoring company	People typically cannot recall how they spent their cash earnings, and therefore, no positive association with the program or the sponsoring company is established
Is separate and distinct as an award vehicle	Becomes confused with compensation
Provides what money can't buy—esteem, recognition	May become an expected part of one's standard of living and difficult to modify or discontinue
Successful non-cash programs typically require 3%-5% of annual compensation to be effective	Cash programs typically require 5%-15% of annual compensation to be effective
Award selection is often made by members of the family and, therefore, stimulate encouragement and support to meet your program objectives	Selection of an award doesn't come into play, therefore, there is less support from home; Cash is too abstract an award and, as such, isn't generally "shared" among family
Non-cash creates "guilt-free" earnings for items of trophy value	A guilt factor may come into play if the cash award is not used toward basic needs such as food, shelter or expenses
Allows program to be modified or terminated without significant negative reaction	Is often viewed as an "entitlement" along with income and difficult to discontinue when the incentive is changed or withdrawn
Highly promotion value—individual can actually assign a higher value to the award in anticipation of earning it; The actual dollar value of the award becomes secondary	The appeal of cash is abstract and non-emotional
Creates a "reach factor," encouraging people to work toward the program objectives	Beyond a certain point or income level, people will not justify additional effort to earn additional money