

# Non-Cash Rewards Are Best for Performance Improvement

Many companies believe that incentive and recognition plans improve performance. But when companies use cash as the reward for incentive and recognition initiatives, those programs usually end up getting confused with compensation, creating a less effective and less flexible reward system.

Human Resource professionals around the world believe true incentives and recognition are a part of total employee rewards, but distinctly separate from compensation. WorldatWork, a respected industry organization, supports this position.

## WorldatWork Total Rewards Model

*Used with permission from WorldAtWork*

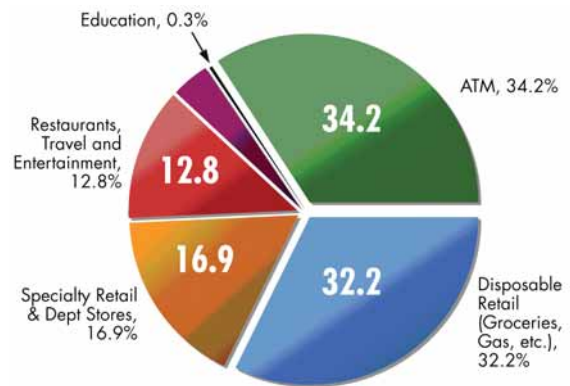


*Note the location of Performance & Recognition. This is where Maritz can help you.*

## Cash is a Commodity

Whether people receive cash in their regular paycheck, or as a special incentive or recognition reward, they use it in the same way. Once the cash received as a reward mixes in an employee's account with the cash from their paycheck, it's all fair game for paying the mortgage and buying groceries.

## What About Cash Cards?



*More than 65% of cash card redemption was for non-memorable and essentially non-motivating items including bail bonds, court costs, tax payments and disposable retail purchases, like groceries.<sup>1</sup>*

## Where Non-Cash Rewards Fit



*Maritz recommends non-cash rewards because they're clearly separate from pay. Recipients treat cash, no matter when it is offered, as pay.*

## Human Nature and Non-Cash Rewards

In performance improvement programs, non-cash rewards are two to three times more effective than cash rewards.<sup>2</sup> The two main reasons for this difference are rooted in human nature. It's just the way our brains work. People are able to visualize and remember tangible items better than cash, and therefore stay more actively engaged with program goals and objectives.<sup>3</sup> They're also more emotionally involved and willing to work harder for something perceived as a luxury item, rather than cash or a more practical reward. This is true even though the luxury item may cost less.<sup>4</sup>

## The Truth About Non-Cash Rewards

Maritz firmly believes that non-cash rewards are more effective than cash. This belief is built on seven facts that experience and research have proven to be true.

### 1. Powerful Rewards are Meaningful, Memorable & Motivating

Cash is spent on day-to-day living expenses and it becomes part of the family budget. Conversely, when people earn merchandise and travel they remember the experience. The reward is a lasting reminder of success, creates a bond between employer and the reward earner, and allows the reward earner to brag to friends and family. (People don't show co-workers their W2s, but they enjoy showing off a new grill or photos from a trip to Hawaii.)

### 2. Stated Preferences aren't Necessarily What Works

Research shows that 85% of the time people say they prefer cash; however, when asked what they did with cash, 29% paid bills, 11% bought household items, and 18% don't even remember what they did with it.<sup>5</sup> The point of a performance improvement program is not to give people what they say they want. It is to inspire changed behavior, engagement, and desired results.

### 3. Non-Cash Rewards Cost Less

When you give someone cash, they know exactly what it is worth. However, when people earn points and redeem them for tangible items, there is a higher perceived value. Studies show that while cash is important in the total rewards mix, as are benefits, it takes three times more cash than merchandise to drive the same results.<sup>6</sup>

### 4. Luxury Items & Experiences are More Exciting

It's much easier to get people focused and energized when the reward opportunities are tangible, (like a home theater system)

and captivating (like a week at a luxury resort). Rewards like these capture the imagination, creating a higher perceived value than cash. Additionally, engaging communications and promotions can be built around tangible rewards. It's tough to make cash look like anything more than cash.

### 5. Cash Rewards Quickly Become Expected

Once you offer cash, it becomes difficult to take it away, because people feel entitled to it. Start a new program with new rules, a new theme and new rewards when moving from cash to non-cash. At first, people may feel that something has been "taken away." But ultimately, the past will be forgotten and the focus will be on your new program. Even though this may be a hard decision to make, long-term it will drive better performance for the company.

### 6. Non-Cash Rewards are Guilt-Free

When people are given cash, they tend to spend it on things they need because they have so many monetary commitments. Non-cash rewards allow people to treat themselves and not feel guilty. For example: "I can't use my points at the grocery store, so I should go ahead and get myself that new MP3 player." Reward earners therefore feel good about what they achieved, good about what they earned, and good about their company.

### 7. Non-Cash Programs can be Constantly Reinvented

As your business needs evolve, you can create new non-cash programs to support them. But cash is cash, and much less flexible. Let's say your company is launching a new product. You could increase everyone's pay for three months, so they'll support the new product. But what then? At the end of the three months, the promotion is over and that means a decrease in pay. With non-cash rewards, you can make adjustments when it's time to change, increasing motivation with exciting news, instead of creating disastrous disappointment.

## FOOTNOTES:

- <sup>1</sup> 2006 Maritz Incentives Research on Redemption Analysis of Open Compensation Cards.
- <sup>2</sup> Study by Scott Jeffrey, Ph.D., described in “Right Answer, Wrong Questions” from September 2004 Issue of SalesForceXP . Also supported by People, Performance and Pay, O’Dell and McAdams, and **The Compensation Handbook**.
- <sup>3</sup> Study by Scott Jeffrey Ph.D., described in presentation given at the 2007 Incentive Summit “From Art to Science: Why Tangible Non-Cash Rewards Are More Rewarding for You and Your Participants.”
- <sup>4</sup> Study by Ran Kivetz, Associate Professor of Marketing at Columbia University Graduate School of Business, described in “Lock in On Luxuries” from September 2005 issue of SalesForceXP.
- <sup>5</sup> Worthlin Worldwide.
- <sup>6</sup> Study by Scott Jeffrey Ph.D., described in presentation given at the 2007 Incentive Summit “From Art to Science: Why Tangible Non-Cash Rewards Are More Rewarding for You and Your Participants” and **People, Performance and Pay**, O’Dell and McAdams, and **The Compensation Handbook**.

[www.maritz.com](http://www.maritz.com)  
(877) 4 MARITZ  
[info@maritz.com](mailto:info@maritz.com)

