Employee recognition programs can reduce firm-level productivity

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UCR research has shown that seemingly innocuous non-financial award programs can be costly to firms. Credit: UC Riverside

More than 80 percent of companies use award programs like "Employee of the Month" and "Top Sales Club" to motivate employees and increase

performance. While the conventional wisdom is that such awards are cheap and can provide a subtle way to motivate employees, these programs might be reducing firms' overall productivity, according to a new study led by a researcher at the University of California, Riverside.

Recently accepted for publication in the journal *Organization Science*, "Motivational Spillovers from Awards: Crowding Out in a Multitasking Environment" is the first academic study to show that seemingly innocuous non-financial award programs can be costly to firms, primarily because they can upset the status quo and influence perceptions of equity and fairness. This can lead to internally motivated employees becoming disenfranchised. The study was led by Timothy Gubler, assistant professor of management in UCR's School of Business Administration, together with Ian Larkin from the University of California, Los Angeles, and Lamar Pierce from Washington University in St. Louis.

For years, researchers have studied the unintentional side effects of monetary rewards that tie pay with performance. Such rewards can reduce employees' intrinsic motivation, cause workers to focus less on tasks not recognized financially, and lead to a tendency for employees to play or "game" the system. Conversely, non-monetary recognitions and small nominal awards like gift cards are widely believed to avoid these unintended consequences and present a costless way to motivate employees.

"The common knowledge is that non-monetary awards can subtly motivate people in ways that are fundamentally different to financial reward programs, such as by increasing organizational loyalty, encouraging friendly competition, or increasing employees' self-esteem," Gubler said. "In fact, past research has focused almost exclusively on the benefits of these programs, and the costs have been considered negligible."

To explore the potential downsides of award programs, the researchers used field data from an attendance award program implemented at one of five industrial laundry plants in the Midwest United States. With the plant relying heavily on worker efficiency for overall productivity, the program was designed to recognize all employees with perfect attendance—defined as coming on time to work and not having any unexcused absences. Each month, employees with perfect attendance were recognized at a plant-wide meeting, with one person receiving a $75 gift card through a random draw.

Using data from the company and a statistics technique called difference-in-differences (DiD), the researchers analyzed data from all five plants both before and after the award was implemented, exploring the award's effects on individual workers' performance and plant productivity as a whole. The found:

- Reward-motivated employees responded positively to the awards by reducing tardiness, but gamed the system to maintain eligibility using sick days and reverted back to poor attendance behavior when they lost eligibility in a given month.
- The awards crowded out intrinsic motivation in internally-motivated employees, who were already performing well by coming on time in the absence of rewards. These employees had increased tardiness after the program was implemented and they lost eligibility.
- The awards decreased motivation and productivity for internally-motivated workers, suggesting these employees were unhappy because of fairness and equity concerns.
- In total, the award program cost the plant 1.4 percent of daily productivity, mainly because of the lost productivity by internally-motivated employees.

Gubler said the research is among the first to show that motivational

awards can be costly to firms, rather than beneficial.

"Conscientious internally-motivated employees who were performing well before the award program was introduced felt the program was unfair, as it upset the balance of what was perceived as equitable or fair in the organization. So their performance suffered—not just in terms of their attendance but also through a motivational spillover that affected other areas of their work—including productivity," he said.

Gubler said firms should carefully consider not only the benefits but also the costs of implementing such programs, and realize an award can cause the same issues as a bonus or other compensation.

"Employees value workplace fairness and they care about how they're perceived relative to others in the organization. To be effective, companies offering award programs need to consider not only the group they are targeting—such as those that are coming late to work—but also those that are already doing the right thing, as there is a possibility of demotivating some of their best employees."

More information: Motivational Spillovers from Awards: Crowding Out in a Multitasking Environment, *Organization Science*, papers.ssrn.com/sol3/papers.cf … ?abstract_id=2215922

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