

## MOTIVATION CONSIDERATIONS

Tim Houlihan, Vice President | The Reward Systems Group

Motivation has many sources.

Simply put, motivation boils down to people taking action because they either want to or they have to. Most action at work takes place because people want to. The question then becomes what can we do to cause people to be motivated to take action?

“Preference and the decision to take action are separate psychological transactions.”

—Scott Jeffrey, PhD.

### Preferences vs. Actions

A noted researcher in the field of behavioral research stated that “Preference and the decision to take action are separate psychological transactions.”<sup>i</sup> In several studies, researchers found that people believe that money is the most motivating reward because it's the most rational of choices and the most fungible of all rewards.<sup>ii</sup> However, the same researchers have discovered that the biggest improvements in performance come from non-monetary awards and not cash or cash equivalents.

### The Power of Irrational Behavior

If we always acted rationally, we'd never have credit card debt, never eat chocolate ice cream, and never run marathons. We do these things for irrational reasons. We give in to desires that outstrip our financial wellbeing, to the pleasure of ice cream in our mouth, and for the t-shirt at the end of the race. None of these actions is done for monetary purposes and they are the de facto definition of irrational behavior. It's okay—it's who we are as human beings.<sup>iii</sup>

Irrational – or what some consider emotionally driven – behavior is the key to influencing behavior change<sup>iv</sup>. In several corporate studies including participants from tire sales people to retail clerks to call center employees, BI WORLDWIDE has observed that irrational desires cause more positive changes in behavior (and hence performance) than the rational desire to earn more money (or cash equivalents).

### Keeping Up With the Joneses

We are drawn to comparing ourselves to others and researchers find that keeping up with the Joneses is a powerful social motivator<sup>v</sup>. How do we really know that we are or are not keeping up? Perceptions are all we have. We judge others—and believe that we are judged—by the stuff we have. Earning an extra \$50 doesn't create a lift in status and will not get discussed at the water cooler; however, new sunglasses can be bragged about in the office as being “a gift from my company.”

### The Power of Accumulation

Point-based programs have been around since the start of the 20th century and became prevalent with the advent of frequent flier programs. Frequent fliers tend to focus on the effort needed to get to their next goal (the free ticket, the upgrade, etc.) and not the monetary value of the miles. Most people don't even know the explicit monetary value of the miles they're accumulating. If they thought about the actual monetary value of spending an extra 15 minutes in the car driving to the partner hotel to earn 500 miles, most would reconsider their effort and make alternative plans.

## MOTIVATION CONSIDERATIONS

“Just as a baseball game is not solely defined by the baseball itself, a successful incentive program is not solely defined by the incentive.”

Researchers point out that people respond with less effort when “the amount of pay is not substantial”<sup>vi</sup> and indicate that in these low-reward situations, points are more effective—such as with frequent flier miles. Irrational choices are influenced by the reward media.

### A Calculative Mindset

Ran Kivetz, PhD, of Columbia University, has recently indicated that when awards are made in cash or cash equivalents, the mind of the receiver becomes calculative in nature. In other words, rewards that are positioned in specific dollar values tend to be seen as a deal by the recipient: “If I do this, it’s worth \$X to me.” Most recipients won’t consider the reward a “deal” when the dollar value is not explicit. With non-monetary, tangible rewards, most people ask themselves, “Do I want this? What do I have to do to get it?”

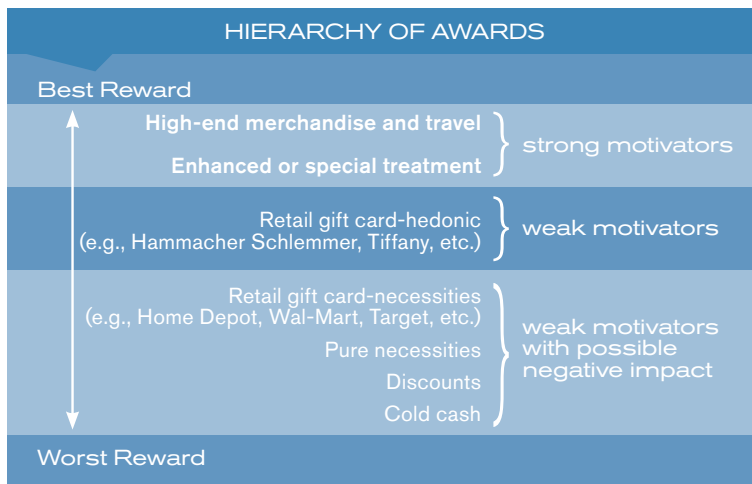


Figure 1: Kivetz Rewards Hierarchy, 2010

### On Various Rewards

The image in Figure 1, was developed by Dr. Kivetz to demonstrate that while many things could be construed as motivational, the rewards that are truly motivational are very specific. The best rewards are non-monetary in nature.

### Summary

In order to maximize the effect a program has in the market, it must be different. A “me too” program will be seen as lackluster and easily compared to other programs—especially when cash or cash equivalents dominate the rewards.

The calculative mindset will prevail if the rewards are cash or cash equivalents. Also, it’s important to plan beyond the rewards. Just as a baseball game is not solely defined by the baseball itself, a successful incentive program is not solely defined by the incentive. A sound strategy, good design, robust communication, and diligent execution are all critical to making a program successful.

### End Notes

- i Jeffrey, S., “Preliminary Results on Tangible vs. Cash Awards,” manuscript draft from August 2006.
- ii Shaffer, V., Arkes, H. “Preference reversals in evaluations of cash versus non-cash incentives,” *Journal of Economic Psychology*, 27 August 2009.
- iii Ariely, D., *Predictably Irrational*, Harper Collins, 2009 – revised edition.
- iv Houlihan, T., “Comparative Studies,” privately published by BI WORLDWIDE, 2010.
- v Diener, E., Ng, W., Harter, J., and Arora, R., “Wealth and Happiness Across the World: Material Prosperity Predicts Life Evaluation, Whereas Psychosocial Prosperity Predicts Positive Feeling” *Journal of Personality and Social Psychology*, Vol. 99, No. 1, 52–61, 2010.
- vi Ariely, D., Gneezy, U., Lowenstein, G., Mazar, N. “Large Stakes and Big Mistakes,” *The Review of Economic Studies*, 76, 451-469, 2009.