

the cash trap

highly
requested,
easily
forgotten

If Money Can't Buy You Love, it sure as heck won't get you sustainable improved employee performance. For as long as companies have offered employees incentives to work harder and smarter, cash has been the most requested award and the technique most often used to drive performance. Industry experts agree, however, this is the one time that managers should not listen to their work force.

"More money isn't what makes Sammy run", says John Jack, vice president, at a Minneapolis-based developer of performance improvement programs. More money won't change a thing".

Jack argues that 20 percent of a company's employee base earns 80 percent of the money, generate 80 percent of the new ideas, and produces 80 percent of the sales. These high achievers will produce with or without added incentives. The trick is to motivate workers in the remaining 80 percent- or at least a sizable portion of them - to raise their performance. Offering money is an inefficient means of accomplishing that.

"The dividing line is where compensation begins and ends" says Darryl Hudson, CEO of American Express Services. "Some corporations have fallen into the trap of giving cash when recognition is really the proper vehicle. If it's not intended as compensation, we don't think cash should ever be used"

For starters, money is less memorable than rewards of merchandise and travel. In a 1999 American Express survey of 1,010 award recipients, 29 percent of those who received a cash bonus paid bills with the money. Another 18 percent couldn't remember where the money went, while 11 percent bought household items.

"Rewards should be sticky. Cash is slippery", says Hutson. "if you have a reward that's slippery, you're not going to get a good return on your investment."

But moving away from cash rewards is difficult when its entrenched in a company's incentive plan. Employees quickly view bonuses as entitlements - part of their salary package- and there will be a backlash if managers suddenly move to motivating with merchandise.

If you're in this sort of bind, incentive experts suggest freezing cash bonuses at current levels and spending any money from increased incentive budgets on alternative programs. Time these programs so they run when bonuses aren't being distributed, and change things around from one year to the next to keep things fresh.

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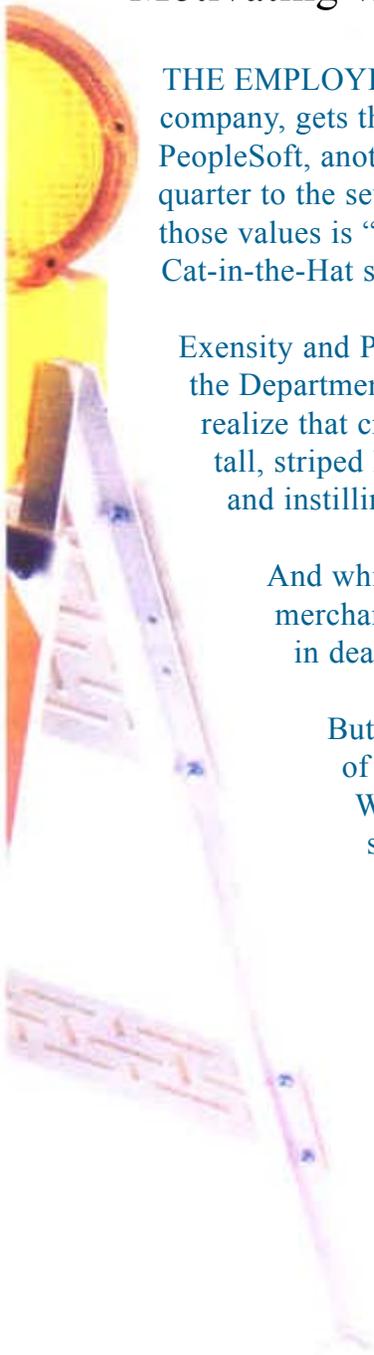
Cash remains the most popular motivator, with 63 percent of the respondents listing it as one of the items used in incentive programs.

Gift Certificates were a part of 54 percent of incentive programs, merchandise was used in 51 percent, individual travel in 38 percent and group travel was used in 29 percent of the programs.

"We've know for many years that cash continues to be a popular motivator, as it should be in the short term," says Henry. "But once the worker or salesperson or consumer has his or her own basic needs satisfied, merchandise or travel awards provide much better long-term motivation."

Adds Vitagliano, "Individuals say they prefer cash, but in terms of a company sponsoring a program, they get much more bang for their buck using merchandise or travel. It still astounds me that people are motivating with cash."

Motivating with merchandise & travel makes more sense than ever!



THE EMPLOYEE OF THE MONTH AT EXTENSITY, AN EMERYVILLE, CA company, gets the use of a new Volkswagen beetle for 30 days. One division at PeopleSoft, another California-based business software maker, hands out hats each quarter to the seven employees who embody the company's core values. One of those values is "fun," and the employee chosen in that category gets to sport a Cat-in-the-Hat style hat.

Exensity and PeopleSoft are examples of companies that get it, says Dan Horne of the Department of Marketing at Providence College in Rhode Island. That is, they realize that creative use of merchandise – even temporary ownership of a car or a tall, striped hat – can go a long way toward motivating workers, building morale and instilling a sense of loyalty.

And while these examples involve motivating in the workplace, experts say merchandise and travel are equally effective in consumer promotions, as well as in dealer/distributor and business-to-business campaigns.

But human resource issues – recruiting, retaining and reaping the benefits of happy employees – are the topics du jour of the business world. With unemployment hovering at historical lows and companies in several industries scrambling to fill openings, businesses need to create workplace environments that provide more than a paycheck.

Experts agree a tight labor pool is reason enough for companies to review their recognition and motivation programs. A new survey of sales and business professionals conducted by Horne and co-sponsored by Potentials magazine, 1-800-Gift Certificate and Loews Cineplex Entertainment supports this sense of urgency.



One-fourth of survey respondents said they do not receive awards at all. And fully 40 percent of those who were recognized in the past year received cash, which is widely considered an inefficient means of recognizing top performers.

“We know recognition programs work and yet there are a tremendous number of people who don't use anything. That's being penny-wise and pound-foolish,” says Horne. Some companies are intimidated by up-front costs of up to \$100,000 for a recognition program, but they “don't look at the fact that they're going to spend that much and more on increased recruiting and dealing with a workforce that's not performing at its best.”

Indeed, MCI Communications learned

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from studying its own employees that a new hire can accomplish only 60 percent as much in the first three months as an experienced worker. The value of experienced, hard-working employees is more obvious not only to employers, but also to the workers themselves.

“Employees are informed now”, says Darryl Hutson, CEO of American Express Services. “One of the things they’re asking prospective employers is, ‘What do you do in terms of recognition, reward programs and training?’”

The findings from Horne’s survey, as well as insights from several other American Express studies provide specific strategies for novice and veteran incentive users alike. And just as they have in other areas of business, computer software and the Internet have cut costs and made today’s incentive programs more exciting and efficient.

In the end, however, the main tenets of incentive programs that were true 50 years ago remain pertinent in today’s environment. Two in particular stand out from the comments and results received in the *Potentials* survey conducted by Horne: Companies will get much more bang for their buck by rewarding with merchandise or travel instead of cash, and constant communication with participants is essential for a truly effective recognition program.

