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HUMAN PERFORMANCE

# What monetary rewards can and cannot do: How to show employees the money

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**Abstract** Monetary rewards can be a very powerful determinant of employee motivation and performance which, in turn, can lead to important returns in terms of firm-level performance. However, monetary rewards do not always lead to these desirable outcomes. We discuss in this installation of Human Performance what monetary rewards can and cannot do, and reasons why, in terms of improving employee performance. Also, we offer research-based recommendations including the following five general principles to guide the design of successful monetary reward systems: (1) define and measure performance accurately, (2) make rewards contingent on performance, (3) reward employees in a timely manner, (4) maintain justice in the reward system, and (5) use monetary and nonmonetary rewards. In addition, we offer specific research-based guidelines for implementing each of the five principles. In short, our article summarizes research-based findings and offers recommendations that will allow managers and other organizational decision makers to understand when and why monetary reward systems are likely to be successful in terms of enhancing employee motivation and performance.


## 1. Show me the money

A well-known scene from the movie *Jerry Maguire* (Crowe, 1996) portrays the high value that employees give to monetary rewards. The scene involves the following shortened telephone conversation between Jerry Maguire, a sports agent played by Tom Cruise, and Rod Tidwell, a National Football League wide receiver played by Cuba Gooding, Jr.:

Jerry: What can I do for you, Rod? You just tell me. What can I do for you?

Rod: It's a very personal, a very important thing. Are you ready, Jerry?

Jerry: I'm ready.

Rod: Here it is: Show me the money. Oh-ho-ho! Show! Me! The! Money! A-ha-ha! Jerry, doesn't it make you feel good just to say that? Say it with me one time, Jerry!

Jerry: Show me the money!

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Rod: Yeah! Louder!

Jerry: Show me the money!!

Rod: I need to feel you, Jerry!

Jerry: (*Screaming*) Show me the money!!! Show me the money!!!

Rod: Congratulations, Jerry, you are still my agent.

As was the case for Rod Tidwell, monetary rewards can be a very powerful motivator, and the effect that monetary rewards have on motivation often translates into other positive outcomes such as employee retention (Jewell & Jewell, 1987). Moreover, Stajkovic and Luthans (2001) conducted a study including more than 7,000 employees with identical job responsibilities and found that objective performance improvements—measured in real-time by a meter in each employee's work station—were highest among employees in a monetary incentive intervention program compared to those who received social recognition or performance feedback instead. In addition, benefits of monetary rewards seem to be global and have been documented not only in the United States but also in many other countries and industries around the world including China (Du & Choi, 2010), Australia (Cadsby, Song, & Tapon, 2007), and England (Campbell, Reeves, Kontopantelis, Sibbald, & Roland, 2009).

However, monetary rewards do not always lead to desirable outcomes. First, generous amounts of monetary incentives sometimes fail to motivate (Beer & Cannon, 2004) and may even lead to counterproductive outcomes such as financial misrepresentation activities (Harris & Bromiley, 2007). Second, when promised very high amounts of monetary incentives, employees can 'choke,' or suffer declined performance levels as a result of sharply increased fear of failure (Chib, De Martino, Shimojo, & O'Doherty, 2012). Third, employees can develop a sense of entitlement to certain amounts of payouts (Beer & Cannon, 2004) and, as a result, actual payouts that fall short of their expectations can cause various negative reactions such as pay-level dissatisfaction and intentions to quit the organization (Schaubroeck, Shaw, Duffy, & Mitra, 2008). This point is humorously illustrated in *National Lampoon's Christmas Vacation* (Chechik, 1989), in which the main character Clark Griswold (played by Chevy Chase) goes on a bizarre rant in front of his family after finding out that his usually generous Christmas cash bonus was not given out for the year.

There is an important body of scholarly research on motivation, individual performance, and reward systems that allows us to reconcile seemingly contradictory conclusions about the positive and negative effects of monetary reward systems. However, given the much lamented science-practice divide in management and related fields (Cascio & Aguinis, 2008), this research does not seem to have reached many managers and other organizational decision-makers. Accordingly, next we discuss what monetary rewards can and cannot do, and why, in terms of improving employee performance. Then, we offer research-based recommendations including five general principles to guide the design of effective monetary reward systems. In addition, we offer specific research-based guidelines regarding the implementation of each of these principles. In short, our article distills research-based findings and offers recommendations that allow for a better understanding of when and why monetary reward systems are likely to be successful in terms of enhancing employee motivation and performance.

## 2. What monetary rewards can do and why

Examples of monetary rewards include base pay, cost-of-living adjustments, short-term incentives, and long-term incentives (Aguinis, 2013). The available empirical evidence documents that monetary rewards are among the most powerful factors affecting employee motivation and performance. For example, Locke, Feren, McCaleb, Shaw, and Denny (1980) found that an employee's productivity increased by an average of 30% after the introduction of individual monetary incentives. Other types of rewards and interventions do not seem to have such a powerful effect (Locke et al., 1980; Stajkovic & Luthans, 2001).

In spite of the research-based evidence, managers and other organizational decision-makers often seem to lose sight of the principle so eloquently encapsulated by former Avon CEO Hicks Waldron: "It took me a long while to learn that people do what you pay them to do, not what you ask them to do" (Cascio & Cappelli, 2009). One likely reason for the lack of generalized acceptance of this principle is that results of employee surveys seem to suggest that monetary rewards are not among the most important motivating factors. However, what employees say is the value of monetary rewards does not always reflect what they think or what they actually do (Rynes, Gerhart, & Minette, 2004). In fact, although pay is not often acknowledged as a critical factor in most surveys, it is one of the most important factors leading employees to accept job offers (Feldman & Arnold, 1978). Thus, in addition to its role as a motivator, greater absolute pay levels relative to the competition, as well as a better alignment between monetary rewards and performance, allow organizations to attract and retain individuals who exhibit the highest levels of performance, need for achievement, and leadership qualities (Rynes et al., 2004). Further, higher levels of pay and better pay-performance alignment are especially valued by top performers: a minority of highly sought-after employees who contribute to the majority of organizations' output (Aguinis, Gottfredson, & Joo, 2012b; O'Boyle & Aguinis, 2012). Not surprisingly, organizations that provide higher pay levels and tie pay to individual performance enjoy high levels of return on assets (Brown, Sturman, & Simmering, 2003).

The reason why monetary rewards can be a powerful motivator of employee performance and also help attract and retain top performers is that they help meet a variety of basic needs (e.g., food, shelter) and also higher-level needs (e.g., belonging to a group, receiving respect from others, achieving mastery in one's work) (Long & Shields, 2010). For example, monetary rewards provide employees with the means to enhance the well-being of their families, as well as pay for leisure activities with friends and colleagues, thereby helping satisfy the higher-level need to belong in groups. Employees can also use monetary rewards to purchase status symbols such as bigger houses (satisfying the higher-level need for respect from others) and pursue training, development, or higher education (satisfying the higher-level need for achieving mastery). Further, monetary rewards in and of themselves are often valued as a symbol of one's social status (Saleh & Singh, 1973) and acknowledgment of one's personal accomplishment (Trank, Rynes, & Bretz, 2002).

## 3. What monetary rewards cannot do and why

There are limitations to what monetary rewards can do in terms of enhancing individual and firm performance. First, monetary rewards do not improve employees' job-relevant knowledge, skills, and abilities (KSAs). That is, although monetary rewards can motivate employees to work harder, they do not necessarily improve KSAs, unless monetary rewards are invested in training and development activities (Dierdorff & Surface, 2008). Individual performance is determined by both motivation *and* KSAs (McCloy, Campbell, & Cudeck, 1994). So, relying on monetary rewards as the exclusive solution to performance problems is counterproductive when the cause for poor performance is a lack of KSAs rather than a lack of motivation (Mitchell, 1997). As noted by Aguinis (2013, p. 275), "[if] an organization is trying to solve performance problems by focusing on money only, one result is expected for sure: The organization will spend a lot of money."

Second, monetary rewards do not necessarily improve the quality of jobs: what is generally labeled 'job enrichment' (Grant & Parker, 2009). Job enrichment is an important motivator because individuals derive personal meaning from enriched jobs. For example, increasing employees' pay levels does not necessarily enhance the level of autonomy and participation in decision-making enjoyed by employees. Also, monetary rewards per se do not enrich jobs by enhancing the variety of skills that employees use at their jobs or the perception of positive impact that employees' work has on others.

Finally, monetary rewards do not have a built-in mechanism that prevents such rewards from unintentionally encouraging unethical and counterproductive employee behaviors (Kerr, 1975). For instance, Green Giant, a producer of frozen and canned vegetables, once rewarded its employees for removing insects from vegetables. It was later found that employees began to bring insects from their homes, placed them in the vegetables, and subsequently removed them to receive the monetary rewards (Aguinis, 2013).

In sum, monetary rewards can improve employee motivation and performance because they can satisfy a wide range of low- and high-level needs (Long & Shields, 2010). However, the use of monetary rewards does not always lead to desirable outcomes. Next, we offer research-based recommendations on how to design and implement effective monetary reward systems that will maximize positive outcomes and minimize negative ones.

## 4. Best-practice recommendations on how to use monetary rewards effectively

Our best-practice recommendations regarding how to use monetary rewards effectively include five general principles, each of which is accompanied by specific guidelines regarding implementation issues. Table 1 provides a brief summary of our recommendations.

### 4.1. Principle #1: Define and measure performance accurately

Performance should be defined and measured accurately for a monetary reward system to be truly effective (Viswesvaran & Ones, 2000). Specifically,

**Table 1. Research-based recommendations on principles and implementation guidelines for using monetary rewards effectively**

| Principles | Implementation Guidelines |
|---|---|
| 1. Define and measure performance accurately | • Specify what employees are expected to do, as well as what they should refrain from doing.<br>• Align employees' performance with the strategic goals of the organization.<br>• Standardize the methods used to measure employee performance.<br>• Measure both behaviors and results. But, the greater the control that employees have over the achievement of desired outcomes, the greater the emphasis should be on measuring results. |
| 2. Make rewards contingent on performance | • Ensure that pay levels vary significantly based on performance levels.<br>• Explicitly communicate that differences in pay levels are due to different levels of performance and not because of other reasons.<br>• Take cultural norms into account. For example, consider individualism-collectivism when deciding how much emphasis to place on rewarding individual versus team performance. |
| 3. Reward employees in a timely manner | • Distribute fake currencies or reward points that can later be traded for cash, goods, or services.<br>• Switch from a performance appraisal system to a performance management system, which encourages timely rewards through ongoing and regular evaluations, feedback, and developmental opportunities.<br>• Provide a specific and accurate explanation regarding why the employee received the particular reward. |
| 4. Maintain justice in the reward system | • Only promise rewards that are available.<br>• When increasing monetary rewards, increase employees' variable pay levels instead of their base pay.<br>• Make all employees eligible to earn rewards from any incentive plan.<br>• Communicate reasons for any failure to provide promised rewards, changes in the amount of payouts, or changes in the reward system. |
| 5. Use monetary and nonmonetary rewards | • Do not limit the provision of nonmonetary rewards to noneconomic rewards. Rather, use not only praise and recognition, but also noncash awards consisting of various goods and services.<br>• Provide nonmonetary rewards that are need-satisfying for the recipient.<br>• Distribute nonmonetary rewards based on the other four principles of using monetary rewards effectively.<br>• Use monetary rewards to encourage voluntary participation in nonmonetary reward programs that are more directly beneficial to employee or organizational performance. |

performance measures must be reliable (i.e., yield consistent and error-free scores across raters, time, or other contexts) and also valid (i.e., reflect all relevant performance facets and not irrelevant ones) (Aguinis, 2013).

There are four guidelines regarding how to implement this first principle. First, there is a need to specify what employees are expected to do, as well as what they must refrain from doing. Otherwise, employees may increase performance in areas that are not desired by the organization, including counterproductive behaviors illustrated earlier through the Green Giant example. In short, inaccurate definitions and measures of performance may lead to the fallacy of rewarding A, while hoping for B (Kerr, 1975).

Second, when defining performance, we suggest aligning employees' performance with the strategic goals of the organization (Aguinis, Joo, & Gottfredson, 2011). Establishing this alignment helps an organization promote employee behaviors that contribute to meeting organizational goals and the bottom line.

Third, methods used to measure employee performance should be standardized (Chen, Tsai, & Hu, 2008). This involves not only standardizing rating forms and techniques (e.g., by standardizing the questions asked in interviews) but also providing raters with standardized training on how to accurately measure performance. For example, frame-of-reference training achieves standardization by helping raters similarly interpret and assign numerical scores to the same behaviors (Aguinis, Mazurkiewicz, & Heggestad, 2009).

Fourth, though both results and behaviors should be measured, it is important to correctly decide how much emphasis to place on each. When employees have greater control over the achievement of desired outcomes, then more emphasis should be placed on measuring results (Grote, 1996). For example, it is better to emphasize the measurement of behaviors for employees who have not yet had a reasonable period of time on the job to develop the necessary knowledge and skills to complete their tasks (Aguinis, 2013).

## 4.2. Principle #2: Make rewards contingent on performance

The second principle is that monetary rewards must be tied to performance as closely as possible, and not to irrelevant factors such as number of years in the organization or unquestionably following a supervisor's directives (Trevor, Reilly, & Gerhart, 2012). A monetary reward system that closely links pay to performance helps attract, retain, and motivate the best, while sorting out the rest. Without a strong connection between pay and performance, employees are less likely to believe that increasing effort will result in additional pay, thereby leading to lower levels of motivation (Aguinis, 2013). We offer three specific guidelines regarding the implementation of this second principle.

First, pay levels must vary significantly based on performance because employees are not likely to change their motivation levels when there is a small difference in the amount of pay between high performers and low performers (Aguinis, 2013; Rynes, Schwab, & Heneman, 1983). Even if there is a strong connection between performance and supplemental pay (e.g., bonuses), small amounts of additional remuneration promised for higher performance levels will fail to motivate employees to exert the additional effort.

Second, it is important to explicitly communicate to employees that they are being paid differently because of different levels of performance and not because of other reasons. As stated by Baldwin, Bommer, and Rubin (2013, p. 262), "Nothing is likely to burn out your star performer as much as equal rewards, whereby everyone receives the same. . . regardless of performance." Ultimately, it is employees' perceptions of whether rewards are contingent on performance that drives them to exert more or less effort (Trevor et al., 2012). To maximize this perception, organizations should not only maintain a performance-contingent monetary reward system but also explicitly communicate the performance-contingent nature of the rewards.

Third, it is important to take cultural norms into account (Aguinis, Joo, & Gottfredson, 2012c). For example, consider the cultural dimension labeled 'individualism-collectivism.' In general, people in countries such as the United States and Australia, which are more individualistic, place great value on individual achievement. Alternatively, people in countries such as China and Guatemala, which are more collectivistic, place great value on group identification. Accordingly, employees in individualistic countries tend to prioritize their own individual interests above the interests of groups in which they belong (e.g., extended family). On the other hand, employees in collectivistic societies tend to value interdependence and place the interests of the groups they are affiliated with above their own. Thus, monetary reward systems that emphasize individual rewards will be more successful in more individualistic compared to more collectivistic societies. For example, the average U.S. worker, and more so for high-performing employees, prefers pay systems that are strongly contingent on individual performance (Trank et al., 2002). On the other hand, the greater an organization's collectivist nature (e.g., an organization located in a collectivist country), the greater the emphasis should be on rewarding team performance in addition to rewarding individual performance (Aguinis et al., 2012c).

## 4.3. Principle #3: Reward employees in a timely manner

The third principle involves the need to reward employees in a timely manner (Aguinis, 2013). It is better to reward employees shortly after they have exhibited exemplary behaviors so that the behavior-reward link is established more clearly. However, assigning a cash bonus to an employee every single time an exemplary behavior occurs is not practically feasible. In light of this, we offer three specific guidelines regarding the realistic and effective implementation of this principle.

First, managers can distribute fake currencies or reward points that can later be traded for cash, goods, or services (Merrill, Aldana, Garrett, & Ross, 2011). For example, Dave Warren, president of the manufacturing company Energy Alloys, implemented a reward program called Energy Bucks. Managers and supervisors carry printouts of fake money that are distributed to employees based on their on-the-job performance on an ongoing basis. At the end of the day, employees can use the fake money to purchase various products at the company store or save it for bigger purchases in the future (Witt, 2005). As another illustration, First Data corporation, a financial services firm, has a program in place called Bravo! designed to "recognize employees for their unique contribution to the company and foster a community of excellence that rewards everyone who reaches beyond the expected" (https://www.firstdatabravo.com/). Supervisors are able to distribute Bravo! points to their employees on the spot based on performance; points can then be redeemed for gift cards, electronics, home accessories, sporting goods, and travel options.

Second, we suggest that organizations switch from a performance appraisal system to a performance management system (Aguinis et al., 2011). Performance appraisal systems usually involve a formal, end-of-the-year performance evaluation form that managers unfortunately often fill out carelessly because it is a requirement from the human resource department, and employees typically receive no ongoing feedback and developmental opportunities (Aguinis et al., 2011). In contrast, a performance management system involves ongoing and regular evaluation, feedback, and developmental opportunities (Aguinis, 2013). When an organization has a performance management rather than a performance appraisal system, the regular interactions centered on evaluating and developing performance will provide useful information so that employees will be able to receive rewards in a timely manner.

Third, we suggest that managers provide a specific and accurate explanation regarding why an employee is being rewarded. For example, avoid making vague statements such as "good job" and instead provide explanations such as, "Our monthly figures show that of all the tellers during the month of April, you conducted the most transactions" (Aguinis, Gottfredson, & Joo, 2012a, p. 109). Employees are more likely to repeat desired behaviors if they have a specific and accurate understanding of why they received a reward (Aguinis, 2013).

## 4.4. Principle #4: Maintain justice in the reward system

The fourth principle is that organizations maintain justice in the reward system (Greenberg, 1990). It is important to have a just reward system not only because it is the right thing to do, but also because employees' perceptions of justice lead to a variety of desirable attitudes (e.g., organizational commitment) and behaviors (e.g., performance) while reducing undesirable outcomes (e.g., counterproductive work behaviors) (Ambrose & Schminke, 2009). There are three types of justice perceptions in the context of a reward system: distributive justice (i.e., "was the allocation of rewards to various employees just?"), procedural justice (i.e., "were the procedures used to allocate rewards just?"), and interactional justice (i.e., "did the people who maintain the reward system provide personal treatment and information in a just manner?") (Ambrose & Schminke, 2009). Next, we offer four implementation guidelines regarding this fourth principle.

First, to maintain distributive justice, it is important to only make promises of rewards that are actually available (Aguinis, 2013). Otherwise, unfulfilled promises tend to incite negative emotions and counterproductive behaviors (Bordia, Restubog, & Tang, 2008).

Second, to maintain procedural justice, when increasing monetary rewards, it is better to increase employees' variable pay rather than their base pay (Aguinis, 2013). The reason for this recommendation is that employees typically see variable pay as more contingent on performance and thus less stable over time (Kuhn & Yockey, 2003). Therefore, if the amount of compensation received from variable pay, as opposed to base pay, fluctuates (e.g., declines) due to changes in performance levels, an employee is more likely to accept the fact than feel injustice.

Third, also related to procedural justice, organizations should make all of their employees eligible to earn payment from any incentive plan, instead of only a select group of individuals (Aguinis, 2013). For example, if the top executives of a company are promised stock options and profit-sharing depending on their performance, extending this to lower-level employees fosters the perception that they are in a just workplace. In turn, this perception increases the motivation levels of all employees in the organization (Ambrose & Schminke, 2009).

Fourth, to maintain interactional justice, it is important to provide a thorough and convincing explanation for any circumstances such as budget constraints or organization-wide pay cuts that make it no longer feasible to keep promises of rewards that were previously available (Greenberg, 1990). Even when no explicit promises are made, employees tend to form expectations, such that a thorough and convincing explanation is also warranted when changes are made to actual amounts of payouts or the system (Schaubroeck et al., 2008).

## 4.5. Principle #5: Use monetary and nonmonetary rewards

The fifth principle involves the use of nonmonetary rewards in addition to monetary rewards. The reason is that nonmonetary rewards serve to develop and motivate employees in ways in which monetary rewards do not (Long & Shields, 2010). As we mentioned earlier, paying employees more does not necessarily improve their job-relevant knowledge and skills or enrich the characteristics of their jobs (e.g., job autonomy, positive impact on others). But, certain nonmonetary rewards are designed to do just that. For example, valuable training and development opportunities, offered as rewards for good performance, help not only motivate employees but also increase their job-relevant knowledge and skills (Brown & Sitzmann, 2011). Further, greater discretion over redesigning one's own job as a performance-contingent reward motivates employees by satisfying their need for autonomy (Wrzesniewski & Dutton, 2001). Next, we offer four specific implementation guidelines regarding our fifth principle.

First, it is not necessary to limit the provision of nonmonetary rewards to noneconomic rewards, because nonmonetary is not equivalent to noneconomic (Long & Shields, 2010). Instead, nonmonetary rewards involve not only praise and recognition but also various goods and services. The difference between monetary and nonmonetary rewards is that the former involves cash, whereas the latter can be relabeled noncash rewards. Examples of nonmonetary rewards include formal commendations and awards, a favorable mention in company publications, receiving praise in public, letters of appreciation, status indicators such as an enhanced job title, a more flexible work schedule, greater job autonomy, paid sabbaticals, and more interesting work (Aguinis, 2013). Other examples of nonmonetary rewards include training and development, tuition reimbursement, coveted parking spaces, a gym membership, a new piece of furniture, going to social events or vacations with coworkers, and even an opportunity to get out of one's least favorite project (reserved for top performers only) (Douglas, 2012; Schappel, 2011).

Second, make sure to provide nonmonetary rewards that are need-satisfying for the recipient because effective nonmonetary rewards motivate people by satisfying their desires (Long & Shields, 2010). For example, if a manager gives a Celine Dion concert ticket to an employee who has no interest in the singer, this will likely have no effect on the employee's motivation or, worse, may send the signal that the manager does not care about the employee. This situation can be avoided by simply asking what the employee wants.

Third, distribute nonmonetary rewards based on the other four principles of using monetary rewards effectively. Just like with monetary rewards, nonmonetary rewards should be based on accurate definitions and measurement of employee performance (Principle #1), contingent on performance (Principle #2), provided in a timely manner (Principle #3), and the reward systems must be just (Principle #4). As noted by Aguinis (2013, p. 275), nonmonetary rewards typically satisfy these criteria because they "are usually available (there is an unlimited supply of praise); all employees are usually eligible; and nonfinancial rewards are visible and contingent, [and] usually timely."

Fourth, we suggest that organizations use monetary rewards to encourage voluntary participation in nonmonetary reward programs that are more directly beneficial to employee or organizational performance (Dierdorff & Surface, 2008). For example, the food and beverage department in Argosy Casino makes cross-training a nonmonetary reward that an employee must earn with good performance. Given such, the department adds 50 cents to an employee's hourly pay rate for every new skill learned. As a result of this creative use of both monetary and nonmonetary rewards, the department reported that it experienced high levels of voluntary participation in the training program, as well as improved attraction of job applicants and retention of employees (Davidson & Freundlich, 2011).

## 5. Conclusions

Monetary rewards can be a powerful influence on employee motivation and performance. However, monetary reward systems do not always live up to expectations. A likely reason is the much lamented science-practice gap in management and related fields (Cascio & Aguinis, 2008). In other words, although there is considerable empirical research on what monetary rewards can and cannot do in terms of improving individual performance, such research does not seem to have reached many managers and other organizational decision-makers. We relied on the available research results to distill five principles that, if followed, will allow organizations to take advantage of what monetary reward systems have to offer. However, the devil is in the details. Thus, we also offered research-based guidelines regarding the effective implementation of each of these five general principles. We hope that the adoption of our five principles, as well as their implementation using our specific guidelines, will allow organizations to improve their performance by addressing employees' number one request: "Show me the money!"

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