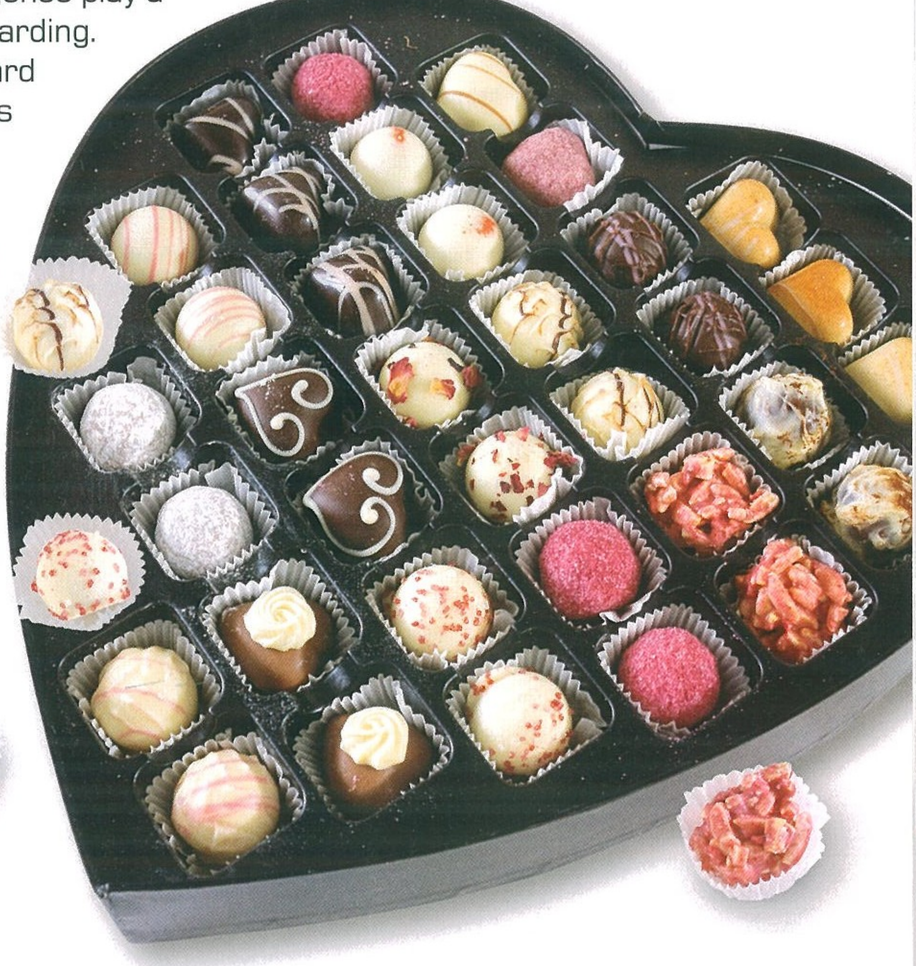
Research suggests that guilt and indulgence play a large part in what makes incentives rewarding. But an effective scheme must also reward behaviour that is linked to the company's values. Caspar van Vark reports

Naughty but nice



JULIAN DODD

It is almost impossible for employees to feel engaged at work all of the time. Indeed, according to communication and motivation consultancy BI, only 40% of UK workers will be fully in tune with their role and organisation at any point in time. How to improve this proportion is a question that has been taxing HR professionals and academics for years, but the answer could now be presenting itself from research into people's behavioural responses to rewards and benefits.

According to Ran Kivetz, professor at Columbia Business School, who has spent years researching behavioural economics, there are principles to do with choice and incentives that can be applied universally. He says incentive managers should be asking themselves three main questions: Which incentives are the most rewarding? How do you motivate people? And how do you use goals in an incentive programme?

For the first question – about the most rewarding incentives – some interesting research is forming about how people consider guilt and indulgence. Understanding the role these impulses play should shape the way you approach an incentive programme.

It all comes down to the work ethic that most of us have instilled in us, says Kivetz. "We tend to feel we should work hard and enjoy ourselves later. That means luxuries tend to invoke guilt. We find it painful to pay with our own money for these things."

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Ran Kivetz, professor, marketing, Columbia Business School

One study exploring this impulse asked ordinary people to take part in some market research. The reward for doing so was either a voucher for a luxurious massage, with a retail value of $80, or simply $85 in cash. Logically, people should take the cash, buy the massage and still have $5 left over. In fact, more than a third of people chose the voucher, saying they would never otherwise spend that kind of money on such a treat, and if they took the cash, they would simply spend it on daily living costs.

"This suggests that people have a problem with indulgence," says Kivetz. "And the lesson in terms of motivating employees is that you should use these types of rewards to give people pleasure. If you ask people what they want, the majority will say they want the functional reward – the money. But in terms of their actual behaviour, they're more motivated by the idea of the gifts and prizes."

Recent examples of company incentive schemes show that businesses are becoming aware of this. Since October 2000, EasyJet, for instance, has used a system called RecogniseMe.com, by which individuals can nominate others for a GEM (Going the Extra Mile) award. A judging panel reviews all entries and votes to give the award. Successful nominees receive GEM award points, which can be banked or redeemed against an online reward catalogue that includes a variety of merchandise and travel vouchers available throughout Europe. The airline now gives out 25-50 awards a month nominated from 4,500 staff.

But it's not enough, says Kivetz, to dangle gifts and prizes in a vacuum. For any kind of incentive scheme to work, people have to engage with it in the ▶

Kleinwort Benson Private Bank Rewards based on work and output replace hierarchy and title

There is more to motivating staff than offering prizes – motivation can also come from within. Take Kleinwort Benson Private Bank (KBPB). In 2004, it appointed a new chief executive, Robert Taylor. He joined at a time when competitors were consolidating and growing rapidly. KBPB wasn't, and change was needed to motivate staff more and get better results.

The change was focused on the relationship managers, the people who deal directly with the bank's customers. Previously, there had been many different levels of seniority. KBPB brought in talent management consultancy Getfeedback, which helped to form a new structure that reduced those tiers. It also assessed each of the employees affected to see how well they would fit in the new structure.

"We replaced a hierarchical longevity structure where people had 'director', 'manager' and 'assistant' in their title," says Taylor. "We had about 12 to 14 different levels, before and these were levelled into two or three. Now, everyone became either a private client manager or a senior private client manager, with a few executive private client managers for very senior people who had large client relationships."

Initially, you might think people stood to lose more than they gained. So how did this exercise help motivate people? The idea was to change people's motivation from a structure based simply on job title and place on the ladder, to one where people were motivated by their actual work and output, and rewarded accordingly.

Not everyone was enamoured of the change. "Four people left," admits Taylor. "But the level of involvement from the bulk of staff in bringing about the change shows they were able to identify with what the company was trying to do." And the results speak for themselves, he says. "Last year we saw new business worth £7 million – an increase of £2 million. The bank has opened three new offices and there are plans for two more."

first place, he says. The rewards also have to be relevant to the business, and the scheme should foster a sense of inclusivity.

"In a different study participants were given incentives, in the form of points, for recycling materials," continues Kivetz. "But they didn't just get a tally of their points – they were also told of the impact of their recycling. They knew how many trees they'd saved. That increased the perception that this was something they wanted to take part in."

In the EasyJet example the fact that fellow staff nominate each other for having done something special means that rewards are always linked to behaviour on the job, and have a grounding in EasyJet's organisational values. Staff were also made to feel part of the new scheme by being consulted on the process right from the start.

Employees were also directly engaged on the relaunch of the GEM awards programme, which replaced the airline's MAD (Make a Difference) scheme, whereby staff gained ruby, quartz, emerald or amethyst points for making a difference to customers, people, markets and costs respectively. They also provided written feedback on the old system, says Andrew Turnbull, EasyJet's learning and development project manager. "The new awards system is also linked closely to our organisational values, vision and strategy – rewarding behaviour that is aligned to the company values," he explains. 'People take part for the recognition of a job well done, the monetary value and the pin badge which signifies that the individuals have gone the extra mile."

British Gas is another example. It employs 12,000 call-centre staff whose work tends to be monotonous. So when it launched an incentive scheme to increase sales of various consumer products, it gave it a Greek theme – tying in with the summer season. It broke the campaign down into sections such as 'It's all Greek to me' and 'Up the Zante'. Rewards included cinema tickets, gym passes and a prize draw for a £2,000 Greek holiday.

The scheme was designed by incentives consultancy P&MM. Its head of motivation, John Sylvester, says the way a programme is communicated is key to getting people involved with it. "We were trying to create a buzz about it," he says. "You need to market these internal initiatives just as you would market your products to your customers. If a programme is themed and has a bit of fun and a competitive element, it builds value and you're more likely to engage people, and get a better return on your investment."

The importance of engagement is key to Kivetz's last question, which is about the way goals should be used. Take the familiar coffee loyalty card. If you get a stamp each time you buy a coffee, it doesn't seem very exciting in the early stages. The closer you get to completing the loyalty card and receiving a free coffee, the more engaging it becomes. Kivetz points to studies showing that people will 'accelerate' as they close in on their goal. In other words, they buy coffee more often, to get the stamp.

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John Sylvester, head of motivation, P&MM

Because people are less bothered at the early stages, incentive managers have to tailor communications to people at different stages. They must also allow for rewards at different levels – not everyone will proceed at the same pace. Those who are further away from their goal need to remain motivated. "Communicate how close they are to their goal," says Kivetz. "If they don't have a reward meter, they can't respond to the goal."

Sylvester backs this up, saying that managers will usually see the biggest improvement among the people who are only halfway there, so it's important to keep them interested.

This all sounds like a lot of science – but is it worth it for the bottom line? P&MM's Sylvester insists it is, because the more managers put into a well-designed motivational scheme, the better value they will get out of it.

"If you put thought into making sure the scheme is attractive at all levels of performance, the more people engage with it, and the less you need to spend on the actual reward values," he says. "And that means you get the biggest bang for your buck."