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# THE IRF QUARTERLY ACADEMIC REVIEW

FOR INCENTIVE, REWARD & RECOGNITION PROFESSIONALS

Volume 3, Number 1

## IMPROVING PRACTICE & APPLICATION

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## FROM THE IRF PRESIDENT



As the Incentive Research Foundation launches Vision 2025, it is fitting to have an issue of *The IRF Quarterly Academic Review* that focuses, in part, on the role mission, vision, and authenticity of purpose play in motivating organizational performance. Here at the IRF, our mission and purpose remain true to our founding: advancing the science and awareness of motivation and non-cash incentives in business and industry globally.

Through Vision 2025, we are focused on continuing to produce high-quality research that is both relevant and impactful, increasing the distribution of our research to ensure it is helping to inform the success of ongoing programs but also educating and inspiring the next generation of incentive champions, and finally, mirroring the increasingly global nature of business and the incentives industry today. In addition to producing original research and education programs, we will continue to publish the *Quarterly*, the world's first journal focused on academic research on incentives, recognition and motivation in the workplace. I hope you enjoy this edition.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Harris". The signature is written in a cursive, flowing style.

Stephanie Harris  
President, Incentive Research Foundation

## EDITORIAL



In this issue we explore the impact of incentives, rewards and recognition on employee engagement and retention. From here, we look at the ever-elusive function of purpose in driving better organizational outcomes, including revenues and profits.

At least initially, you might find the results of these explorations disappointing. The latest research (including that sponsored by the IRF) suggests that incentives and rewards play only a minor role in employee engagement and retention and that even the most authentically purpose-driven organizations can't expect better financial performance on that basis alone.

In reflecting on the findings though, I hope you conclude – as I have – that rewards, incentives and recognition are vital within large and complex motivational systems. First, the IRF-sponsored research provides some of the highest-quality objective evidence so far that incentive programs play an important role in employee satisfaction, engagement and retention. Not surprisingly, however, incentives aren't the only driver. People engage in their work and commit to their employers for a large and complex set of ever-shifting reasons.

In the context of the larger motivation system at play in organizations, I was intrigued by two recent papers that explore the role and impact of purpose. Most everyone knows that purpose must be authentic – not just posters. But even when it is – even when high purpose combines with collaborative/high trust cultures – it doesn't automatically improve financial outcomes. According to the research reviewed in the last two summaries in this issue, trust and high purpose must combine with clarity (in goals, priorities, strategy, etc.) to affect better financial performance. Even then, firms must remain vigilant. Reports of executive malfeasance – *including from other companies* – appears to damage employees' belief in purpose, even in firms whose leaders were not involved.

In my view, interdependence and complexity are the important themes that emerge from this issue. Persistent, authentic purpose slowly builds trust. Trust – as we've seen in past issues – makes extrinsic, performance-based incentives far more potent because with trust, incentives convey appreciation and caring rather than coercion.

We hope you enjoy this issue of the *Quarterly* and, as always, look forward to your feedback.

Sincerely,



Allan Schweyer  
Chief Academic Advisor, Incentive Research Foundation

## Working Paper Summary: Impact of Reward/Recognition and Engagement Programs on Turnover Likelihood



**Citation:** 2019 by Haemoon Oh, Miyoung Jeong and Hyejo Hailey Shin, Hospitality, Retail and Sport Management, University of South Carolina

**Availability:** A full copy of this working paper can be obtained on request from Allan Schweyer at: [allan.schweyer29@gmail.com](mailto:allan.schweyer29@gmail.com)

### Introduction

In 2018, the Incentive Research Foundation (IRF) sponsored research into the question of reward program impact on employee engagement and retention. The paper that is the subject of this summary is the result; it may be the first and only study that explores the *causal* connections between rewards, employee engagement/satisfaction and important business outcomes – in this case, employee retention. This study goes beyond survey data to include field experiments aimed at constructing a causal model of employee engagement that practitioners can rely on in constructing their human capital strategies (see Figure 1). Ultimately, the researchers find that rewards (tangible) and recognition (intangible) play an important but small role in driving employee engagement and lower turnover. “Professional” satisfaction (e.g., with work/career), and “organizational” satisfaction (e.g., with pay, working conditions, etc.) have the greatest causal effect on retention. Professional engagement and organizational engagement are also causally linked to turnover but to a lesser extent. Though it was beyond the scope of this research to determine all of the factors impacting satisfaction and engagement, the authors conclude that tangible rewards, and to a lesser extent, recognition, are important, but just two of many factors that combine to impact professional and organizational satisfaction, engagement, and retention.

### Methodology

The researchers conducted ten experiments, each with four components (i.e., cells) to test for the presence or absence of four factors: recognition, rewards, engagement, and satisfaction. Forty participants (all full-time, employed salespeople) were selected randomly for each component of each experiment – 1,600 in total. The researchers also conducted a follow-up national survey of 300 full-time salespeople. The purpose of the survey was to provide a check against the experiments – to support or refute the study results.

For each of the experiments, 160 participants read one of four scenarios based on hypothetical companies (40 participants each) and rated them on their importance in “choosing to stay with or quit” the hypothetical firm. The survey results largely confirmed the results of the experiments.

## Key Findings

1. Salespeople value tangible rewards over recognition in deciding whether to stay with or quit a company. 65% said rewards were important or very important compared to 37% who said the same about recognition. According to the researchers, *“Implementing a reward program significantly reduces the turnover likelihood, regardless of whether the company implements a recognition program.”* Though these effects are statistically significant and important, they are modest (see Figure 1).
2. Salespeople who are satisfied with their job and firm (e.g., compensation, working conditions, work flexibility, career advancement, etc.) are much more likely to be engaged employees (organizationally and professionally) than those who are not satisfied. Recognition programs appear to have small significant effects on salespeople’s organizational and professional engagement (i.e., affinity with their jobs/work).
3. The experimental results indicate that tangible reward programs, on the other hand, do drive higher engagement (occupational and professional) among salespeople. Engagement with the organization, however, depends a great deal on salespeople also being highly satisfied with the organization.
4. Salespeople who are engaged (both organizationally and professionally) are more likely to stay. Importantly, the impact of organizational engagement on retention is disproportionately greater when a person’s organizational (professional) satisfaction is high than when it is low.
5. The survey is mostly supportive of the findings from the experiments, confirming the significant main effects of rewards and recognition on either or both organizational and professional engagement and retention. However, the survey contained one additional and alarming finding: 57% of salespeople intend to leave their firms imminently or as soon as they find another job.

**Figure 1: A DRAFT Extended, Proposed Model of Employee Engagement (these results differ slightly from the experiment results)**



Note: The first values on the arrows are path estimates and those in the parenthesis are Cohen’s (1988) effect size for which .02 indicates a small, 0.15 medium, and 0.35 large effect size.

## Actionable Takeaways

- Focus first on ensuring that salespeople are organizationally satisfied (e.g., with compensation and working conditions). As above, most salespeople intend to quit their firms imminently or as soon as they find another job. But this research tells us that salespeople are somewhat less likely to quit when they are engaged (professionally and organizationally), and *much* less likely to quit if they are both organizationally satisfied and engaged. Indeed, organizational satisfaction alone, even absent engagement, has a strong, positive effect on retention. Organizational satisfaction drives employee engagement (professional and organizational). Without organizational satisfaction, there can be no organizational engagement. Therefore, get the basics right: compensate fairly (pay & benefits) and offer superior working conditions.
- Your next priority should be *professional* satisfaction and engagement. Where a person enjoys their work and is satisfied, for example, with the amount of autonomy, learning and career growth they receive, you can expect them to stay longer. Though the impact of professional engagement on retention is significantly diminished in the absence of organizational satisfaction, it remains. This is in contrast to organizational engagement, which evaporates entirely without organizational satisfaction.
- Strive to engage employees both organizationally and professionally but where the work is routine, stressful, or otherwise has little appeal (i.e., it is harder to engage salespeople professionally) ensure that organizational engagement is high, otherwise, they are much more likely to leave. In other words, high organizational engagement can overcome low professional engagement, to a degree.
- Use tangible rewards and recognition, but especially rewards. This research adds to the body of evidence that supports the use of tangible rewards for salespeople. In this case, rewards have a modest, but important effect on engagement and positive, indirect effect on satisfaction and retention. In the words of the authors *“implementation of recognition and/or reward program has important positive implications for both organizational and professional engagement and organizational/occupational satisfaction.”*

## Question & Answer with the Authors

Q: The bottom line is that there can be no organizational engagement without organizational satisfaction, correct?

A: *Yes, when either Organizational Engagement (OE) is low, the mean scores of Occupational Satisfaction (OS) are close enough not to show a statistically significant difference. The opposite is true. That is, when OS is low, the OE mean scores are close resulting in an insignificant statistical difference. However, in the case of high OE and high OS, the mean scores are significantly different. Importantly, the relationship between Engagement and Satisfaction are tentative E may cause S or it could be the other way around.*

Q: Organizational satisfaction appears to be the most important factor in driving retention. Obviously, fair compensation (pay & benefits) factors in but on page 50 2nd to the last paragraph, you define it as “working conditions” what are those conditions?

A: *I tend to agree with your interpretation: S should affect E, not the other way around that is, happy people tend to get engaged more. Of course, people also find satisfaction when they are engaged more, the other way around. Also, some people are happy, but they still are not or do not want to engage. This is why many researchers had a hard time determining the causal order.*

*From the experiments can say that in general, OS is more important than Professional satisfaction (or Job or occupation) for determining the likelihood of attrition, which makes sense because attrition is about quitting the organization, not the career.*

*We did not specify a definition of working conditions: we left that to participants to judge – whatever they call working conditions within their current job. There can be many different things to specify but we were hoping they were making an “overall” judgment around all factors constituting their working conditions.*

Q: To what extent, if any, do you believe your findings apply to non-salespeople?

A: *We don't know the answer as we did not have non-sales data. The generalizability depends on whether the importance of rewards and recognition programs to non-salespeople is the same as it is to salespeople. Having said that, I venture to predict that rewards and recognition work similarly to both sales and non-salespeople as long as the organization implements some sort of merit program.*

## Questions?

Please send any additional questions to the researchers:



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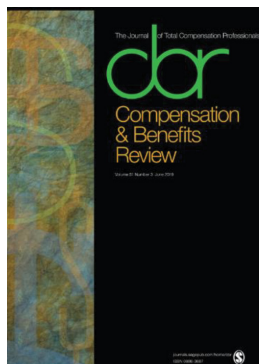
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## Rewards Strategy: A Key Driver of Service–Profit Chain



**Citation:** 2019 by Pankaj M. Madhani, ICFAI Business School, India. *Compensation & Benefits Review* 1–11 2020 SAGE Publications.

**Availability:** A full copy of this paper can be obtained on request from Allan Schweyer at: [allan.schweyer29@gmail.com](mailto:allan.schweyer29@gmail.com)

### Introduction

In 1998, the *Harvard Business Review* published a groundbreaking paper called *The Employee-Customer-Profit Chain at Sears*. Based on hard data from Sears’ experiments in putting employees first, this article demonstrated the causal links between employee satisfaction, customer loyalty, and profits. Indeed, the authors extracted a simple formula from the data that proved capable of predicting Sears’ profits six months out depending on employee satisfaction scores six months prior. The article played a key role in launching the now more than two-decades-old movement toward improving employee satisfaction and engagement for sustainable competitive advantage.

In this article, the author revisits the service-profit chain as well as employee-customer-profit chain concepts to explore the impact of rewards strategy on employee satisfaction, leading to customer satisfaction and then to profits. The author calls it the “service-profit chain” induced by a firm’s total rewards strategy.

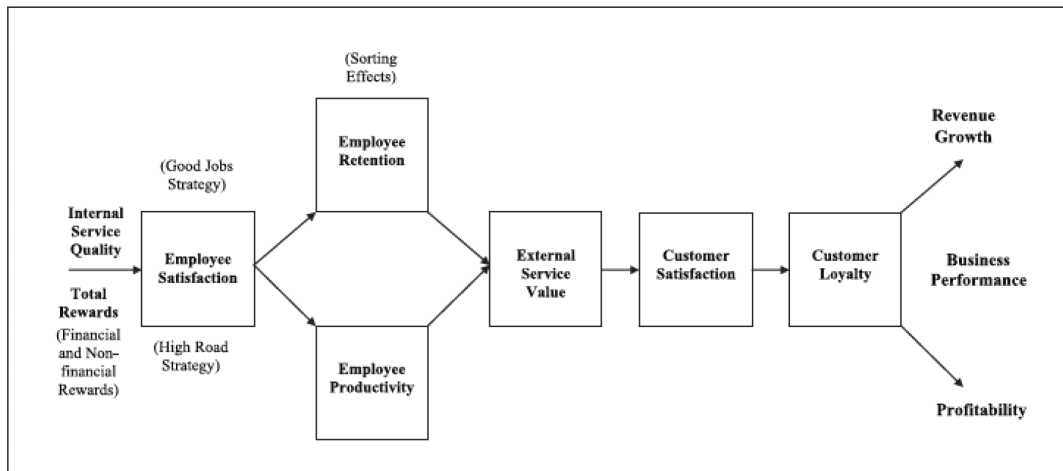
From the previous article in this issue, we learned that there is a causal relationship between better employee satisfaction and improved engagement as well as reduced turnover (at least among salespeople). Here, the author reviews a body of research to explain the links between employee satisfaction, improved customer service, greater customer loyalty, and improved profits. He finds that an effective reward strategy, involving the right balance of rewards (financial and nonfinancial, tangible and intangible), leads to improvements in employee satisfaction, higher employee engagement and, in turn, higher profits.

### Key Findings

1. Improved internal service quality (the work environment, including rewards and recognition, training and development, transparency, autonomy, good leadership, the culture in general and other investments in employees) causes higher employee productivity, satisfaction, and retention (loyalty).
2. Employee loyalty and satisfaction leads to improved customer service, which in turn, drives customer loyalty.
3. Profits derive from customer loyalty. A 5% improvement in customer loyalty can result in profit improvements of between 25% to 85%.
4. Once the employee-profit chain is operating and maintained, it becomes a virtuous cycle where additional and ongoing investments in employees improve execution and customer service, even more, leading to bigger profits.

5. A firm's total reward strategy is an instrumental and necessary component of internal service quality. Rewards drive satisfaction, which drives better customer service, which drives profits (see Figure 1).
6. Despite enormous investments in engagement initiatives and total rewards, the vast majority of American workers feel neither engaged or appreciated at work.
7. An effective total rewards strategy involves a careful, complex, and ongoing design. It not only drives employee satisfaction but it also signals the firm's values and priorities. The consequences of getting it wrong match the rewards of getting it right.
8. Total rewards strategies should include tangible cash and non-cash rewards, and intangible rewards, such as recognition. The strategy must create an ongoing balance to appeal to employees' intrinsic and extrinsic motivational needs, and it must appeal to changing employee preferences, on an individual-by-individual basis.
9. Recognition alone has been shown to improve performance by 24% among salespeople.

**Figure 1: A Total Reward Strategy: A Key Driver of Service–Profit Chain**



## Actionable Takeaways

- Look after your employees first, above customers and other stakeholders. The profit chain and the virtuous cycle start with employees who create satisfied and loyal customers.
- Investments in employees do not end with an effective rewards strategy, but effective rewards and recognition are an essential ingredient. In designing an effective total rewards strategy, use cash rewards in combination with non-financial tangible and intangible rewards. Research has shown that non-financial rewards (tangible and non-tangible) generate better returns, more often, than cash. This is true of salespeople and the general employee population.

*“It has been argued that money will motivate some of the people all the time and, perhaps, all of the people some of the time. But it cannot be solely relied on to motivate all of the people all the time; hence, money has to be reinforced by nonfinancial rewards, especially those that provide intrinsic motivation.”*

## Question & Answer with the Author

**Q:** It has been more than 20 years since the Sears case study showed the importance of investing in employee satisfaction and engagement. A few years later, The War for Talent became an international bestseller. Firms have poured billions of dollars into employee engagement programs and billions more into reward programs. Still, as you say, 80% of employees do not feel appreciated and almost as many are disengaged. Why do you think this is?

**A:** *Major causes of employee disengagement are:*

1. *Lack of effective rewards and recognition system*
2. *Lack of inspired leadership and value system within the organization*
3. *Unfair and ineffective communication policies*
4. *A huge gap between expectations and realities*
5. *Fewer opportunities for knowledge sharing*
6. *Limited scope for learning and development*
7. *Lack of trust and unsupportive organizational environment*
8. *Insecurity, instability, perceived inequality, interpersonal issues, stress/anxiety, and working conditions*

Here are some action plans to engage your employees effectively:

1. Identify preferences for motivational incentives (financial or non-financial)
2. Ensure that employees feel heard and valued for their inputs and also appreciated for their achievements
3. Take the initiative to inspire employees and provide timely feedback
4. Empower your employees and do not micromanage
5. Create a healthy organizational culture and encourage creativity
6. Build trust and ensure that employees feel positive at work
7. Allocate roles and responsibilities based on their strengths and encourage job rotation
8. Deal with people differently as people are different, each with unique egos, emotions, and feelings.

**Q:** You emphasize the importance of building and executing an “effective rewards strategy” and part of that lies in understanding the preferences of each individual employee. How does this scale? How does a large firm build a rewards strategy that treats every employee differently?

**A:** *An effective reward and recognition strategy should match each employee’s preferences and needs because employees differ in terms of risk preferences, career stage, skill differences, rewards preferences, and other factors. Managers should remember that the value of a reward and recognition plan is often idiosyncratic to each employee. Not all employees value the same rewards, and not all people value one reward to the same extent. Thus, managers should carefully match rewards and recognition to the specific personal needs of the employee. The effectiveness of a rewards and recognition plan depends on management’s ability to match these plans with employees’ characteristics, situations, and preferences. Thus, companies are introducing new data mining and HR analytics solutions to better understand employee’s preferences and accordingly customize rewards and recognition plans.*

## Questions?

Please send any additional questions to the researcher:



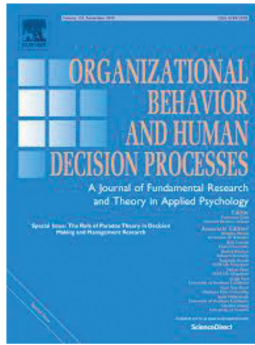
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## Opting-in to Prosocial Incentives



**Citation:** Daniel Schwartz, Elizabeth A. Keenan, Alex Imas and Ayelet Gneezy (2019). Organizational Behavior and Human Decision Processes (in press)

**Availability:** A full copy of this paper can be obtained on request from Allan Schweyer at: [allan.schweyer29@gmail.com](mailto:allan.schweyer29@gmail.com)

### Introduction

Much has been written about the motivational effects of providing charitable and volunteer opportunities to workers. Past research suggests that incentives tied to charitable donations motivate employees beyond standard incentives in which they can earn cash for themselves. Yet, at the same time, people are often observed avoiding prosocial activities. Studies have found, for example, that about one-third of people, upon hearing a Salvation Army volunteer canvassing at one entrance to a store, will go out of their way to choose a different entrance. Likewise, when allowed to divide a sum of money between themselves and a partner, the average person gives their partner just 30%, and many will forfeit 10% of the amount to keep 90% for themselves if given that alternative.

Standard incentives sometimes bring unintended consequences. Cash rewards, can, for example, “crowd out” peoples’ intrinsic motivation, or cause them to collaborate less. If prosocial incentives avoid these risks, managers might favor them. The researchers find, however, that standard incentives work far better than prosocial incentives at enticing people to participate in an incentive program. This is true at all levels of reward, but especially as incentive amounts increase.

### The Experiments

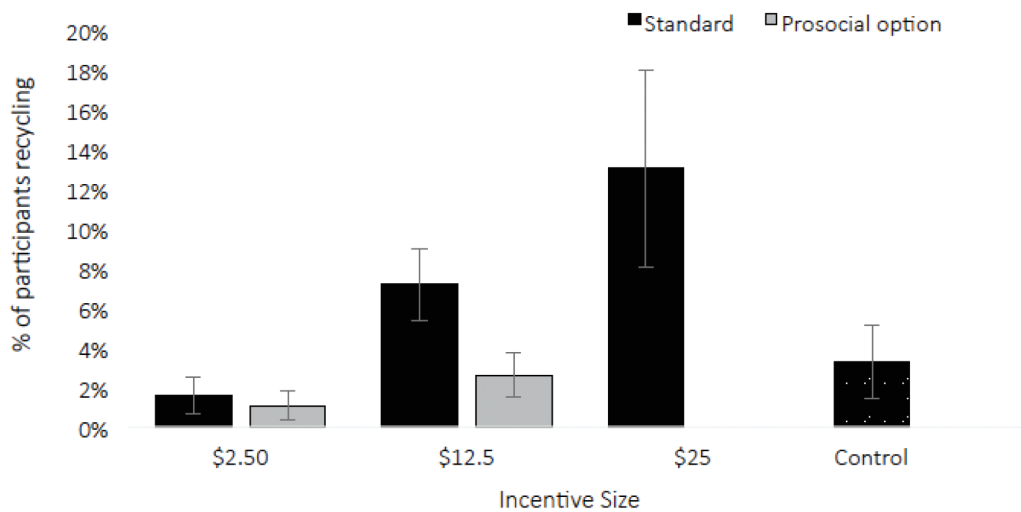
**Experiment 1:** The researchers conducted real-life field experiments to avoid the biases of the lab. In the first experiment, the occupants of 951 randomly selected apartments (among a larger number chosen because they did not have a recycling program) were invited to participate in a recycling program. Each of these households received one of six offers in their mail slots. Five of the six groups were offered rewards of either \$2.50, \$12.50 or \$25.00 for participating. Some were told all of the money would go to an environmental cause (prosocial), others were told they would keep it for themselves (standard), while another group was given the choice to keep it all or give it all to the charity (the prosocial option). A final group would receive only a thank-you acknowledgment (the control group).

### Results

- As expected, the larger rewards, \$12.50 and \$25.00 enticed far more participants than the \$2.50 reward. However, this was only true for those receiving standard offers, not prosocial, where the amounts made no difference (see Figure 1).

- More than three times as many households offered the standard incentive chose to participate than those offered the optional incentive (keep it all or donate it all). Incredibly, not a single household offered the optional incentive with a high amount (\$25), chose to participate, versus 13 percent offered the standard incentive and high amount (see Figure 1).
- In terms of effort, standard rewards drove significantly higher effort as the amounts increased. Optional rewards had the opposite effect, participant performance decreased as the reward amounts increased.

**Figure 1: Likelihood to Participate, experiment 1**



**Experiment 2:** The second experiment used a UK-based online crowdsourcing site to hire 1,345 participants for simple online tasks in exchange for payment of half a pound. Afterward, participants were offered amounts ranging from one cent to a full pound to do additional, similar work. Half were offered the work where the entire reward would go to charity (in this case to aid terminally ill children), or the choice of donating all the reward or keeping all of the rewards for themselves.

## Results

- In this experiment, when the reward amount was high (£1), 60.5% of participants offered the standard incentive accepted the additional work versus 47.6% in the optional group and 21.1% in the mandatory group (forced to donate the full reward). Interestingly, though far fewer agreed to the work when the lowest reward (one cent) was offered, the differences between the groups were similar: 23.6% for standard, 19% optional and 12.6% mandatory.

- In this experiment, when the reward amount was low, workers in the mandatory and optional prosocial groups worked harder than those in the standard incentives group. There was no difference in effort when the reward amount was high.

**Experiments 3 & 4:** These experiments used the same crowdsourcing site, this time with 916 and 1,208 participants respectively. These experiments were designed to investigate what happens when participants have the choice (or not) if donating just a small portion of the reward rather than the whole thing.

In experiment three, one-quarter received a £1 (standard) incentive; another quarter received the same but had to donate £0.10 of it to charity (partial mandatory prosocial); another had the option of donating £0.10 to charity (partial optional prosocial), and a final group would receive £.90 with no donation (also standard). The fourth experiment was identical except with only three groups and smaller rewards (£0.70 and £0.60 rather than £1 and £0.90). Experiment four was added to control against differences in reward amounts, but no significant difference in outcomes was observed between the two.

## Results

- Again, more workers opted in under standard incentives (49%) than under the partial prosocial conditions – either optional (43.6% or mandatory, 42.5%). Interestingly, fewer than half of those who opted in under the optional prosocial incentive donated the £0.10. The effort was the same across each condition.

## Actionable Takeaways

1. From these experiments, it appears that most people prefer standard incentives. They likely avoid prosocial incentives even when they have the choice to keep or donate the money. Moreover, it appears people will work harder under a standard incentive plan, depending on the increasing richness of the reward.
2. Where reward amounts are tiny workers still appear to avoid prosocial incentives – even when donations are a tiny amount of a tiny reward and are optional.
3. In general, prosocial incentives do not inspire greater effort. It may be, in some circumstances, that when reward amounts are low, prosocial incentives drive higher performance. However, they attract significantly fewer participants, perhaps suggesting that those attracted to work rewarded through mandatory or optional prosocial incentives, while a minority, will sometimes work harder provided the stakes are small.

*“Within the context of real-world settings, prosocial incentives may not be effective at increasing participation; individuals were more likely to avoid activities that involve prosocial incentives relative to standard incentives across all incentive levels.”*

## Questions?

Please send any additional questions to the researchers:

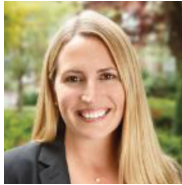


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## Working Paper Summary: Corporate Purpose and Financial Performance



**HARVARD  
BUSINESS SCHOOL**



**Authors:** Claudine Gartenberg, NYU Stern School of Business; Andrea Prat, Columbia University, and George Serafeim, Harvard Business School

**Availability:** A full copy of this paper can be obtained [here](#) from Harvard Business School

### Introduction

Between 1995 and 2015, articles about organizational purpose (in academia and in the mainstream media) grew by 500%. As of 2015, nine in 10 senior executives believe that higher purpose firms generate greater employee loyalty, yet fewer than 40% agree that in their own firm, decisions and leader behaviors are consistent with the stated company purpose.

*“Most companies produce internal and external statements of their purpose and vision; however, as [various researchers] find, these statements are cheap talk and unrelated to performance.”*

An enormous amount of hypocrisy surrounds the trend toward establishing a corporate purpose, meaning, values, vision, or mission statement. It should not surprise leaders that employees see straight through their vapid pronouncements and posters. Only when firms embrace their authentic purpose and use it as a filter through which to make every decision – especially decisions financially harmful to them in the short term – will employees believe in the purpose and in the leaderships’ commitment to it.

As difficult as getting to this point is for most firms though, is it enough? Prior research has advised that when employees believe in the authenticity of the firm’s purpose and trust in their leaders’ commitment to it, a virtuous cycle emerges with plain and obvious financial benefits.

This research explores that notion and finds it wanting.

The authors investigate the circumstances in which corporate purpose improves a firm’s financial performance. They start with no preconceived notion of whether purpose translates to financial performance. Indeed, they find that it doesn’t – at least not on its own. Their exploration of years of data from hundreds of public firms, suggests, if anything, that purpose on its own – beyond that focused squarely on quantitative financial performance – slightly impairs financial performance.

Only after breaking down the data do they find a robust and substantial connection linking purpose to better financial performance. This happens only when *high* purpose (i.e., authentic, non-financially oriented, and committed purpose) is combined with high clarity (clear communications about priorities and the direction of the firm). The authors find that purpose combined with clarity results in markedly better financial performance as measured by return on assets (ROA) and Tobin’s Q (a commonly used measure of financial performance that calculates the ratio of a firm’s market value to its book value).

## Methodology

The researchers analyzed data from more than 450,000 survey responses from full-time employees involving 429 very large, public firms between 2006-2011. The data was taken from applications submitted to the Great Places to Work Institute, which manages the Fortune 100 Best Places to Work list each year. The researchers performed a variety of statistical analyses to control for a range of factors and biases. These analyses also ruled out the possibility of reverse causalities.

## Key Findings and Takeaways

- High purpose firms (where the purpose is not aimed at measurable financial results) do not perform better than the average financially. If anything, their financial performance suffers very slightly. In other words, purpose alone does not drive better financial performance, not even an authentic, committed purpose.
- Neither do high purpose firms that also feature “high camaraderie” perform better than average.
  - High purpose/high camaraderie firms that earn high marks for being fun, highly collaborative places to work perform no better than average.
  - High purpose/high camaraderie firms where employees report psychological safety and fairness – for example, little to no discrimination or favoritism – perform no better than average.
- However, “purpose-clarity” firms – those with high purpose and where management sets clear expectations and clearly communicates the firm’s priorities and direction – perform markedly better financially than average firms.
- The more senior the employee, the more attuned they are to the firm’s purpose. Executives display the most belief in the corporate purpose, hourly employees the least.
- Middle managers and salaried/technical professionals are the lynchpins in driving purpose and clarity through the organization to achieve superior financial performance. In the words of the authors: *Where “strong, credible beliefs held by mid-level employees, particularly in the meaning of their job and clarity in how to succeed,” exist, purpose and clarity leverage better financial performance.*

*“Our analysis suggests that high purpose-clarity organizations exhibit higher financial performance in the future, and particularly when these beliefs are held in the middle ranks of the organization.”*

## Questions?

Please send any additional questions to the researchers:



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## Higher Purpose, Incentives, and Economic Performance



**Citation:** Anjan V. Thakor & Robert E. Quinn (2019).

**Availability:** Available at SSRN:

<https://ssrn.com/abstract=3350085> or

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### Introduction

Increasingly, leaders acknowledge that an important component of the total rewards of work is attachment to a higher purpose – in other words, meaning from work beyond money. More than ever perhaps, firms exert great energy in crafting mission and purpose statements designed to rally employees around common goals that serve customers, society, or employees themselves.

In 2019, a survey of almost half a million workers in 429 firms found that clearly communicated direction and authentic purpose improved financial performance and firms' market value (see summary above). Importantly, extra effort is only realized when employees believe the purpose to be authentic, and not used simply as an instrument to motivate extra effort.

In 2008 the utility DTE Energy was facing a deep crisis, its CEO was advised to downsize. Instead, he committed to laying off employees only as a final and last resort. He rallied employees around the survival of the firm and asked them to give every ounce of their effort and creativity. This employee-centric purpose worked; not only did employees increase output, but suppliers also got on board to help the firm through.

Years ago, Edward Jones changed its purpose from simply making profits to "helping clients meet their most important financial goals in life." Since then, Edward Jones thinks about profits only in the context of how they support the purpose. Edward Jones has earned a reputation for consistently low turnover and high profits.

*"[A] positive effect on performance is encountered only when employees see an authentic commitment to the purpose and not solely as another motivational tool intended to get employees to work harder."*

Sandler O'Neill and Partners was hit so hard in the 9/11 attacks that it almost folded. Yet despite its human and financial losses, Sandler's leadership continued to make hard decisions through the lens of its purpose – to care for employees like family. Families of those who died in the World Trade Center attacks were paid full salaries for years afterward. News spread and the firm acquired customers as a result.

At KPMG, a company-wide initiative to re-write the purpose resulted in words to the effect: *we shape history, inspiring confidence and empowering change*. Leaders wanted 10,000 posters created along with these themes and offered two days extra vacation at Christmas if the goal was achieved. Employees generated 42,000 posters and KPMG climbed 17 spots on *Fortune's* Best Places to Work For list.

Few would argue that purpose matters or that, when authentic, it generates greater effort and other benefits, including lower turnover, and greater ease in attracting new talent to the firm. This research explores those benefits but focuses mainly on whether firms can devote resources and energy to a higher purpose, and/or refuse money-making opportunities that don't align with their purpose while maintaining or even increasing profits.

Similar to the findings from the previous summary, the authors of this research find that commitment to a genuine higher purpose increases employee performance but decreases profits. However, where leaders themselves exhibit a sort of controlled passion for the purpose, striking the right balance of investment but not overinvesting, firms enjoy all the benefits of having a true higher purpose and avoid the costs. Indeed, they can have their cake and eat it too.

## The Study

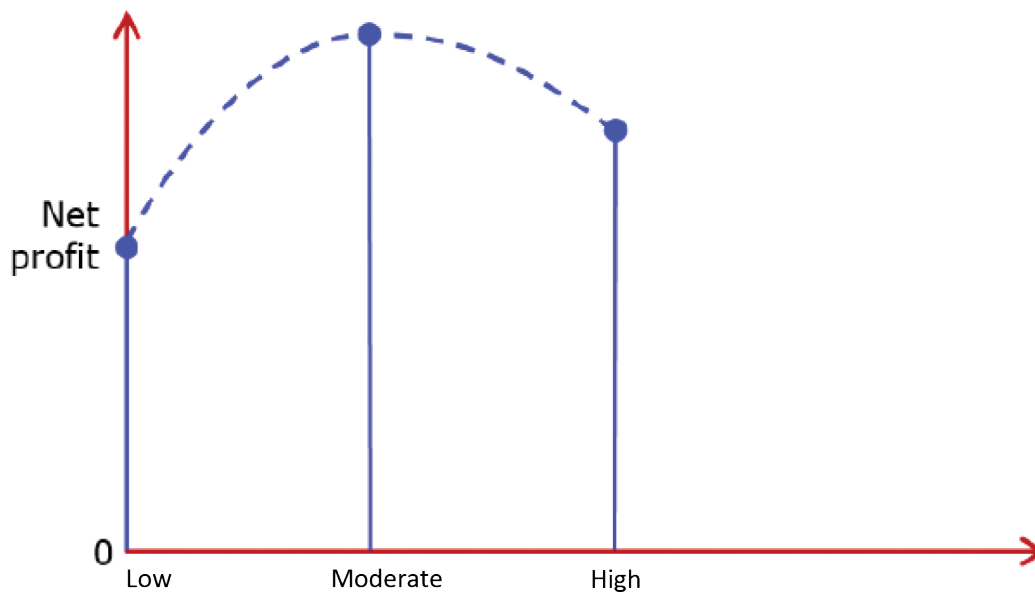
The researchers examined the existing research and anecdotal evidence of the returns on an organizational higher purpose to construct an “economic theory of purpose.” In other words, a mathematical formula to predict whether, when and how a commitment to higher purpose results in sustained or increased profits.

## Key Findings

- First, every example of an authentic organizational higher purpose that falls into one of three buckets. It is focused on either customers, employees or society.
- Firms benefit in two important ways. First, when the purpose binds employees in common cause, more effort results for the same pay. Second, communication of the firm's purpose can inspire external stakeholders – such as investors and suppliers – to reward the firm with better terms.
- You can't expect to simply announce a higher purpose and reap these benefits. Employees and stakeholders have learned to be skeptics. You must connect the organizational purpose to their purpose, and you must demonstrate commitment through actions and tough choices, not just words. In other words, when you have an opportunity to visibly give up something of great value to demonstrate a commitment to your purpose, do it. The Sandler example above is an excellent illustration of this principle.
- Of course, resources spent, and opportunities passed on to communicate a commitment to the purpose cost the firm in terms of revenues and profits, at least in some cases.
- The solution lies in walking a fine but authentic line. In other words, demonstrating “moderate” passion for the purpose – enough to generate employee/stakeholder belief, and therefore commitment and discretionary effort, but not so much as to offset these gains and sacrifice profits (see Figure 1). After all, employees and stakeholders can give only so much. In the Sandler example above, leaders paid victims' families their full salaries ‘for years,’ but not forever.

- A higher purpose combines with other motivators and incentives to maximize employee effort while minimizing organizational sacrifices.
- Again, leaders' commitment to the purpose must be observable and the effects cannot be canceled out by other, self-interested decisions made by (or even perceived to have been made by) leaders. For example, by raising external funding that employees perceive as benefiting the firm's leaders.

**Figure 1: Likelihood to Participate, Experiment 1**



### Actionable Takeaways

1. A total rewards-based incentive program should be designed to include careful crafting of a higher organizational purpose centered on employees, customers, or society.
2. Importantly, a higher purpose alone might inspire greater effort and lower turnover, but the firm's profits will decline in many (not all) circumstances.
3. Help your firm (or clients) design an *authentic* higher purpose, where leaders – especially owners and/or the CEO – visibly demonstrate a commitment to the purpose either through sacrifices, investments, or both. Encourage leaders not to diminish those commitments through selfish acts or decisions or through actions that employees/stakeholders might perceive as selfishly motivated.
4. Balance sacrifices and investments to maximize profits (i.e., find the sweet spot where the benefits of your purpose in terms of employee/stakeholder goodwill match or exceed your sacrifice/investments).

5. Read the exceptional authors' article published in *Harvard Business Review* in the July 2018 issue. This landmark article not only provides compelling evidence for the power of authentic purpose and it describes how you can instill it in your organization: <https://hbr.org/2018/07/creating-a-purpose-driven-organization>

## Question & Answer with the Authors

Q: Is it accurate to say that real or perceived selfish actions taken by leaders – not limited to making investments, as discussed in the paper – will crowd out gains made through visible sacrifices and investments aligned to the purpose?

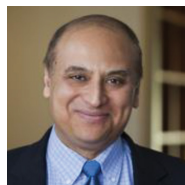
A: *Yes. Selfish actions taken by other firms can crowd out purpose-driven investments in your firm. Thus, there are negative externalities to the selfish and unrelenting pursuit of profits at the expense of a higher purpose.*

Q: Are you also suggesting that when other leaders, in other firms, do selfish things that make the news, it crowds out at least some employee goodwill in firms where leaders were not involved? If so, how do you combat that?

A: *Yes. See above. The only way to combat that is to pursue purpose authentically and convince stakeholders to sin your firm that you are authentic and willing to sacrifice profit for purpose.*

## Questions?

Please send any additional questions to the researchers:

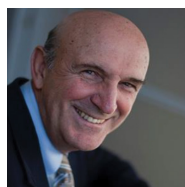


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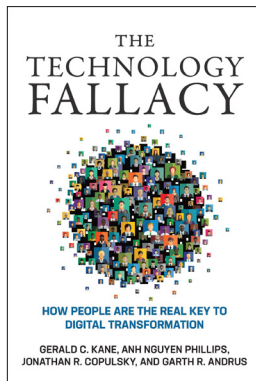
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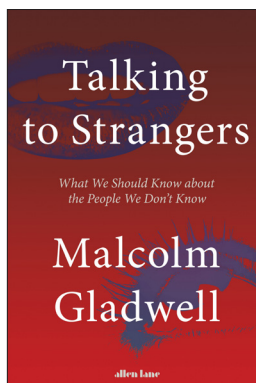


## Books Reviewed and Recommended



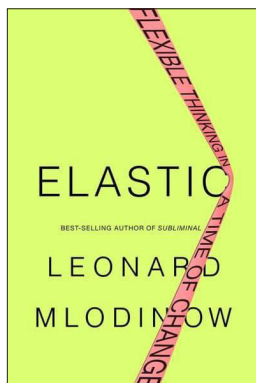
### The Technology Fallacy

Over four years, the authors surveyed more than 16,000 people to gather wide knowledge about the impact of digital disruption. Through various statistical techniques, the authors gleaned insights that can guide any firm through a process they call digital maturity. Ultimately, they find that technology alone doesn't drive digitalization. Rather, a firm's talent, culture, adaptability and leadership matter most. You'll find strong arguments, detailed examples and solid advice, such as a warning not to simply copy another firm, but to adapt the processes to your unique culture.



### Talking to Strangers

Malcolm Gladwell often takes forever to get to his point, but the journey almost always makes it worthwhile. His telling of the Amanda Knox murder case, for example, enthralls. Using everything from CIA interrogations to interactions with sex offenders, he illustrates aspects of stranger-to-stranger dynamics that prove far more complicated than you might think. His heart-wrenching description of Sandra Bland's encounter with a Texas cop in 2015 delivers his message like a punch to the gut. The warning comes through loud and clear, take nothing for granted in talking with strangers.

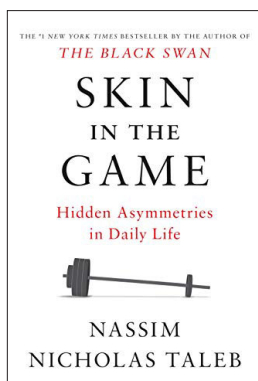


### Elastic

Author Leonard Mlodinow proves again that he has no superior when it comes to explaining science to the average reader. But beyond his lucidity, Mlodinow tells engaging stories and displays a wit and humor that makes learning from his work thoroughly enjoyable. Here, he condenses decades of brain science into a brief explanation of creativity – what inhibits it and what encourages it. Moreover, he offers at least half-a-dozen specific and practical ways most people can use to loosen up and let the ideas flow more freely. Anyone wanting to boost their creativity will gain from *Elastic*.



## Books Reviewed and Recommended



### Skin in the Game

Wow! This nasty, brutish and short book will knock your socks off. Hilarious, merciless, and eye-opening, it will undoubtedly make you think. But if you fit the category of people who read books like this, don't expect to be spared Taleb's disdain for just about every institution and every educated person on earth. Deep conservatives and anti-establishment types might enjoy it most but so will anyone who heeds Taleb's advice to not look at what he writes, but what he means: do things you believe in deeply, stick your neck out for them, but where you have no skin in the game, shut up!



### Goliath's Revenge

Authors Todd Helwin and Scott Snyder layout a modern guide to business success and longevity based on becoming the disruptor rather than the disrupted. By using the included assessments, and by implementing the authors' recommended rules, you'll digitize your firm, your career, or both to avoid a slow death at the hands of start-ups or digital natives. Either way, you'll be better positioned to establish a solid defense and offense in fighting your digital battles. Though written for individuals and large firms both, leaders of established firms will gain the most from the authors' ideas.