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Awards: A Disregarded Source of Motivation

Abstract:

Awards are prevalent in all societies and at all times. So far, however, they have escaped the attention of economists. This paper presents a first analysis of awards, distinguishing them from purely monetary forms of rewards. Additionally, popular notions about the use and prevalence of awards are addressed with descriptive statistics from the International Who's Who.

Awards Cater to Recognition

Basically, all of the social sciences agree that the quest for social recognition is an important driver of behavior. Awards can be considered as societal symbols of recognition. They are specifically designed to fulfill the human desire to be publicly recognized and honored by others in front of or by one's reference group. Awards in the form of orders, decorations, medals, prizes, and titles can be found in virtually all societies and at all times.¹ Awards are used in the corporate sector (e.g., 'Employee of the Month'), but also in the cultural sphere (e.g., the 'Oscars'), in sports (e.g., 'Sports Personality of the Year'), in domestic and international affairs (e.g., state orders and honors such as the 'Presidential Medal of Freedom'), and other sectors of economic and social life. *The Economist* (2004) recognizes this by noting that "a quick glance around the globe suggests that fancy decorations are virtually universal".

Awards are extrinsic incentives and serve as direct motivators when people exert effort explicitly to win the award. Awards serve as indirect incentives when individuals cannot or do not consciously work towards them, for example, state orders for acts of exceptional civil courage. Then, awards work because they create role models, highlight the values of a society, and also bring prestige to individuals who have acted similarly without being chosen as award recipients.

¹ In line with Kliemt 1986, one may argue that awards have evolved as an efficient societal institution that eases cooperation.

Awards and Economics

So far, economists have disregarded awards as incentive instruments despite their ubiquity.² There are several reasons for this neglect. Awards may be considered to be less efficient incentives than monetary compensation because they are not fungible. More importantly, some economists argue that awards only motivate insofar as they lead to future material or immaterial benefits whose impact on behavior can be studied directly. Award-receiving individuals, for example, might be subsequently selected for better or higher paying jobs. However, Huberman et al. (2004) have experimentally demonstrated that people value status independently of any monetary consequence; they are even willing to incur material costs to obtain it. Moreover, Neckermann and Kosfeld (2009) show that people exert substantial additional effort in order to win a nonmaterial award.

It is important to recognize that there are major differences between awards and purely monetary compensation:

- The material costs of awards, consisting of a certificate for the wall or a small trophy, are typically low for the donors, but the value to the recipients may be very high.
- In contrast to monetary compensation, accepting an award establishes a special relationship in which the recipient is expected to behave loyally towards the donor.
- Due to their vague nature and ex post performance evaluation, awards are more adequate incentive instruments than monetary payments when the recipient's performance can only be vaguely determined ex ante or measured ex post.
- Awards are not taxed, while monetary income is.

Measuring Awards

One approach in analyzing awards is to study their prevalence across different countries to gain an understanding of the determinants and consequences of award usage on a societal level. The arguably best source of information is the *International Who's Who* (IWW). The sample of people in the IWW, of course, is not representative of the population of a country because only the most important personalities of each society are included. However, it is the only data source that we are aware of that covers a large number of countries and contains information on the number and kinds of awards received by each person. For a selection of 82 countries, a random sample of 50 individuals per country was chosen in order to generate a descriptive and illuminating picture

² As always, there are exceptions; in this case Hansen and Weisbrod 1972; Frey 2005; and Besley 2005.

of the frequency of awards across countries and sectors. Table 1 provides an overview.

	Total Awards
Mean	2.66
Variance	1.96
Top 10 countries in each category:	
Canada	6.82
UK	6.78
Poland	6.16
Australia	5.66
Senegal	5.30
Hungary	5.00
New Zealand	4.96
Switzerland	4.70
Finland	4.64
Spain	4.20
Information on 7 additional countries:	
USA	3.80
Canada	6.82
UK	6.78
France	3.60
Germany	2.46
Spain	4.20
Italy	1.96

Table 1: Table 1: Average number of awards per individual per country

In the following, four general interest issues about awards are addressed.

1. Are there many awards in the business sector?

One may think that awards are only rarely used in the corporate sector of a market economy. After all, employees in private corporations typically work to earn a salary and are used to seeing their performances evaluated in monetary terms. For example, this is reflected in the increasing importance and prevalence of pay-for-performance schemes. However, a casual observation of business practices suggests that awards and titles are very important in the corporate sector. Consider Federal Express, which confers a host of awards for individual as well as team efforts. These include the 'Circle of Excellence Award' that is presented monthly to the best performing FedEx station and the 'Golden Falcon' that is awarded to employees who go beyond the call of duty to serve their customers. Honorees of the latter award receive a golden uniform pin, a congratulatory phone call from a senior executive, and 10 shares of stock. Awards also play a substantial role in high technology firms as the over 20 different awards handed out in IBM's research laboratories demonstrate.

Across our set of 82 countries, the average individual received 0.06 business awards. This number may sound small, but is quite sizeable considering the large number of politicians, artists, and sports personalities in the IWW who are typically not eligible for business awards. This lowers the mean number of business awards per person. The top 10 countries with respect to the average number of business awards per individual include some highly developed countries such as Canada, Singapore, the United States, Saudi Arabia, Sweden, and Switzerland, but also some developing countries such as the Philippines and Turkey. Business awards do not seem to be prevalent in market economies only. China's business people listed in the IWW, for example, receive a substantial number of awards, even more than those from the U.S.

2. Are awards mainly found in monarchies?

In the past, awards have mainly consisted of state orders, honors, and decorations and have been closely connected to monarchies. An obvious example is Great Britain, which features many dozens of honors and awards bestowed by the Queen. Table 1 demonstrates that today's republics also widely engage in this practice.

Table 1 lists the countries with the 10 highest average number of awards received per individual. Among those countries with the highest number of awards, seven are republics (the Anglo-Saxon countries Canada, Australia, and New Zealand and the European countries Poland, Hungary, Switzerland, and Finland) and only two are monarchies (the United Kingdom and Spain). The table also lists information on the number of awards received for an additional set of seven countries of particular interest. Americans receive a considerable number of awards, more than the French or the Italians. The data indicate that awards today are not solely used in monarchies. Indeed, staunch republics, such as France, the United States, and Switzerland, are among the top 10 of the 82 countries in our sample.

3. Or are awards mainly a military affair?

Judging from the pictures appearing in the press of soldiers and officers receiving orders, decorations, and medals, it could be concluded that most awards are received by the military. However, our data suggest that awards are not strictly a military affair. Of the 82 countries in the sample, 49 countries had military personnel in their sample of individuals drawn from the IWW. Averaged over these 49 countries, the military personnel received only 11 percent of the total awards. In a few countries, however, awards indeed focus on persons in the military. In Uganda, Paraguay, and Venezuela, for example, one-third to almost one-half of all awards (46 percent, 38 percent, and 37 percent, respectively) are given to people in the military. However, these countries are the exception rather than the rule.

4. And what about academics?

Economists might argue that academics should be immune to awards as a form of social flattery. However, academia has an elaborate and extensive system of awards. Consider the universities handing out the title of honorary doctor, or professional associations awarding a great number of medals, the most important one probably being the Fields Medal in mathematics. And, then, of course, there are the 'Nobel Prizes'. Moreover, prestigious fellowships exist in the many academies of science such as in the Royal Society founded in 1660 or the American Academy of Arts and Sciences founded in 1780. Examples in the field of economics are the 'John Bates Clark Medal' of the American Economic Association, the 'Hicks Medal' of the European Economic Association, or the appointment as a 'Distinguished Fellow' by CESifo, one of the leading research institutions in Europe. A list showing all the awards handed out by the national economics associations all over the world would be extremely long. Moreover, there is a large number of Best Paper Prizes awarded by journals in economics, as discussed in a recent article by Tom Coupé (2005). However, academics are also rewarded with awards from outside the academic system. Many of the most respected economists in Britain, for instance, have been knighted, such as Sir John (Hicks), Sir James (Mirrlees), or have received an even higher rank of nobility as Lord John Maynard Keynes and Lord Richard Layard.

According to our data, about 22 percent of all awards are given to individuals in academia. Switzerland and Belgium lead with a share of around 65 percent. In Turkey, the academic sector is also a major recipient (around 60 percent). In three countries (the Netherlands, Germany, and Australia), one-half and perhaps even more of the awards are given to the academic sector. Hence, individuals in the academic sector are among the major recipients of awards.

Conclusions

Awards play a large role in any society because they cater to the substantial human desire to be recognized by others.³ So far, economists have neglected them as incentive instruments distinct from monetary compensation. As a first step, four stylized facts on awards are presented. Awards play a large role in business; they certainly are not solely a feature of monarchies, nor are they only a military affair. They play a large role in academia. One task for future research will be to systematically analyze and identify the determinants of the prevalence of awards across different countries and sectors. Another major task will be to more closely analyze the incentive properties of awards and to compare them to monetary payments.

³ Kliemt (1985) discusses the role of affects and instincts in societal processes. The desire for honor may be considered to be one such innate desire that is reflected in the often highly sophisticated awards and honors systems in a society.

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