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Honours: A counterpoise to today's bonus culture

Bruno S. Frey, Jana Gallus 14 April 2019

The last decades have seen a marked increase in the use of incentive pay as firms compete for talent. This column weighs up the pros and cons of an alternative way to giving people incentives, namely, honouring them. It argues that bestowing awards instead of increasing bonuses or other forms of monetary compensation constitutes a valuable alternative to induce effort without contributing to inequality in the distribution of income.

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Over the last decades, the distribution of income in many countries has become considerably more unequal (Piketty and Saez 2014). There has been a marked increase in the use of incentive pay as firms compete for talent (Bénabou and Tirole 2016). CEO-to-(median)employee pay ratios above 300 are no longer the exception. This causes much concern.

In this column we argue that there is another valuable way to incentivise people, and in particular 'superstars' – giving them what they cannot purchase on the market, namely, honour. Honours and awards are often a complement to money. When considering how to incentivise people who already earn a high income, they may serve to some extent as a substitute for it.

Awards come in many different forms: orders, crosses, medals, decorations, prizes, trophies, certificates or titles. They are prominent in the public sector (for example, the *Légion d'honneur* in France and the many orders in the UK). In the arts, in culture and in the media, prominent examples include the Academy Awards (the 'Oscars'), the Grammy Awards, the Man Booker Prize, and the Pulitzer Prize in literature. Art institutions bestow titles, such as benefactor or patron, upon their supporters. In the field of sports, athletes are given the honour of being elected "Sports Personality of the Year" (by the BBC for example) and can be admitted into Halls of Fame. Religious organisations, such as the

Catholic Church, award the titles of Canon, Monsignore and Archbishop, and use posthumous awards in the form of beatification or canonisation for distinguished individuals.

Academia also has an elaborate and extensive system of awards. Universities confer titles such as honorary doctor or honorary professor. Professional associations award an enormous number of medals, including the Fields Medal in mathematics and the Nobel Prizes. Prestigious fellowships exist in the Academies of Science, such as Fellow of the American Academy of Arts and Sciences (founded in 1780) or Fellow of the Royal Society of Edinburgh (founded, among others, by Adam Smith in 1783), and in associations such as the Econometric Society. And then there is the long list of 'best paper' awards handed out at conferences and by journals, reviewer awards, and awards for teaching and academic service.

Perhaps more surprising is the widespread use of awards in the corporate sector, where one might expect monetary compensation to be the only effective means of motivation. Titles are prevalent and are often little related to functional tasks. Which manager does not want to be, at the very least, a vice-president, or preferably a senior vice-president or even a first senior vice-president? Companies institute recognition boards and honour their employees with 'Employee of the Month' and many other such awards. And yet, despite the fact that awards are omnipresent, economists have for a long time largely disregarded them.

In our book, *Honours versus Money: The Economics of Awards* (Frey and Gallus 2017), we discuss several of the interesting issues related to the study of awards and argue that it is useful to distinguish between two fundamentally different forms of award:

- *confirmatory awards*, where the criteria are clearly determined, and
- *discretionary awards*, which allow givers to honour people according to their own evaluation and even in contexts where the behaviour cannot be specified *ex ante* and quantified *ex post*.

The latter type, discretionary awards, are particularly interesting to study and remain vastly under-researched.

The benefits of discretionary awards

Compared to bonuses and other forms of monetary incentives, discretionary awards have several advantages.

- They are well suited to honouring comprehensive achievements, such as a lifetime's work. The same applies to vague and difficult-to-measure contributions, as their value need not be translated into a specific figure.
- Discretionary awards establish a bond of loyalty between the giver and the recipient, strengthening the commitment to the giver and fostering retention.
- They can reinforce intrinsic motivation, as individual commitment is explicitly mentioned and appreciated in the award ceremony. The award comes as a surprise and after the fact, thus lowering the risk that recipients subsequently attribute their effort to the desire to receive the award.
- Awards are low-cost and untaxed (at least where they are largely symbolic). This is particularly important in countries where marginal income is highly taxed.

People greatly enjoy being honoured with awards. Awards signal appreciation and recognition for one's activities. They have greater visibility among peers than bonuses, which often are not revealed to colleagues. The bond of loyalty not only binds the recipient but also the giver, who must treat the award recipient in a beneficial way in accordance with the honour bestowed. Awards create career advantages and may

indirectly raise income because the qualities of the award winners become better known and appreciated.

The demand for distinction and therewith awards seems almost without limit. The First Duke of Wellington, Arthur Wellesley (1769–1852), provides a good example. He received a huge number of awards in the form of titles of nobility and military ranks – he was appointed the first Duke of Wellington, but was also Baron Douro, Viscount, Earl and Marquess of Wellington, Conde de Vimeiro, Duque de Vitoria, and Marques de Torres Veras in Spain, Duque de Ciudad Rodrigo in Spain and Prins van Waterloo in the Netherlands, and many more. He was also bequeathed the major orders of his time, such as the Knight of the Order of the Garter, Knight of the Most Illustrious Order of the Golden Vlies, and Knight Grand Cross of the Order of the Bath. There are many other well-known individuals who accumulated a mass of awards, such as the German Reichsmarschall Göring or the Soviet marshal Zhukov, whose uniforms were almost fully covered by medals and orders. And this is not only the case for military personnel of dictatorial countries. The American four-star general David Petraeus wore more than 20 decorations on his uniform.

On the supply side, too, using awards is very attractive. Givers often end up bestowing too many awards because they are much less costly than monetary incentives and the givers themselves get to bask in the reflected glory of the recipients. Indeed, one can observe that officials increase the numbers of honours bestowed as the end of their period in office approaches. One example is British Prime Minister Harold Wilson who, before his resignation in 1976, did harm to the honours system by handing out far too many awards to Labour supporters. Similarly, many a military decoration has lost its lustre as the respective regime neared its impending end and honours were handed out in increasing quantities. Historians estimate that about 20% of German soldiers were decorated with the Iron Cross, which was established in 1813 and highly esteemed up until the 20th century.

Awards can be such potent magnets of attention that the opposite has also been created – ironic or mock awards such as the Ig Nobel Prize, and negative awards such as the Golden Raspberry Awards (Razzies) for the worst movie actors and actresses.

Normally, orders and decorations are given in recognition of subjects acting closely to the will of the givers. An exception is an order established by the Austrian Empress Maria Theresa. If a military commander disobeyed an explicit command from his superiors, he could be given the Imperial Military Order of Maria Theresa if his action turned out to be successful. If that was not the case, he was punished and demoted. The Empress was acutely aware of how important it was to maintain special ties to military commanders and to reintegrate norm-breakers into the system. By bestowing this order, she managed to strengthen the bond with the respective military commander rather than pushing them further away from the Crown.

Undesired consequences of awards

Awards may of course also have undesired consequences. In particular, people who expect to receive an award but do not get it may be demotivated and may even try to inflict damage on the winners and the relevant organisation. If awards are given, or expected, for trivial forms of behaviour, they may be ineffective or even counterproductive. A recent field experiment by Robinson et al. (2019) finds that the widespread custom of using awards to reward perfect attendance at school can backfire and in fact worsen attendance. In a corporate context, Gubler et al. (2016) show that attendance awards crowded out intrinsic motivation and performance in tasks not included in the award programme. As with any other incentive mechanism, if the stakes involved in awards become substantial (for example, because of a large prize purse),

potential recipients may game the system.

Awards also have negative effects for the givers if they are bequeathed to undeserving individuals, or if the chosen recipients reject them (as the French philosopher Jean-Paul Sartre did in 1964 with the Nobel Prize in Literature). An even worse outcome for the givers is when the recipient does not show any reaction, thus indicating that the award is of little or no importance to him or her (as was the case when Bob Dylan received the Nobel Prize in Literature in 2016). Such behaviour reduces the value of an award, especially when the awardee is a well-known personality.

Do awards raise performance?

It is not easy to analyse the effects of awards on effort and performance, because of a fundamental causality problem. Normally, the best performers receive an award. The question then arises whether superior performance after receiving an award is due to increased motivation or to the recipients simply being better performers? Recent research has made significant efforts to find out whether, and under what conditions, handing out awards raises future performance.

Malmendier and Tate (2009) look at awards given to CEOs by the business press, such as the 'Manager of the Year' title. They find that such honours induce their recipients to invest less effort in their original firms. Rather, the recipients turn to activities such as writing books or sitting on other companies' boards (see also Siming 2012). Borjas and Doran (2015) find that the productivity of the recipients of the major award in mathematics, the Fields Medal, subsequently declines. The authors attribute this result to the winners' stronger inclination to study unfamiliar topics that are less likely to be published in the top journals. Chan et al. (2014) consider the John Bates Clark Medal, given to the most promising economists in the United States. The authors use the synthetic control method to compare the performance trajectories of winners and a control group after the award was received. The findings suggest that medal winners published 13% more after five years than they would have done had they not received the medal. Citations to their previously published articles (whose quality cannot be affected by the award) also increased by 50% compared to the control group that did not receive the medal.

The voluntary sector relies heavily on intrinsic motivation for people to engage. Monetary compensation stands a high risk of crowding out volunteers' intrinsic motivations. A case in point is Wikipedia, whose authors do not receive any monetary compensation and are unknown to outsiders because they publish under pseudonyms. This online public good has been a surprising success but it is struggling with decreasing retention rates, particularly among new authors. A large-scale natural field experiment by Gallus (2017) analyses whether purely symbolic, discretionary awards can mitigate this trend. It uses random assignment to cleanly identify causality and shows that the awards, which do not have any material or career-related implications for their recipients, increase the retention rate among new Wikipedia authors by 20% in the following month. This effect is shown to persist for an entire year after the initial award is bestowed.

At present there is only a limited number of careful empirical analyses on the effects of awards, and in particular on awards that are discretionary and can be used where money reaches its limitations. The existing empirical evidence suggests that people care about being recognised symbolically and that meaningful awards can significantly raise subsequent performance. If awards are given for meritorious past behaviour and if their numbers are kept limited, they seem to have a positive effect on people's motivation. Recipients feel supported as they are reassured that what they are doing is of value, and because they want to live up to the honour received.

Concluding remarks

Bestowing awards instead of constantly increasing bonuses or other forms of monetary income constitutes a valuable alternative way to induce effort without further worsening the distribution of income. It may contribute to a more peaceful economy and society.

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