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Abundant but neglected: awards as incentives

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Abstract: Economists traditionally focus on monetary compensation when examining incentives, but awards are of immense practical relevance as can be inferred from their prevalence in the form of state orders, decorations and prizes, according to Bruno Frey and Susanne Neckermann.

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Abundant but Neglected: Awards as Incentives

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Awards in the form of orders, decorations, prizes, and titles, are non-material, extrinsic incentives. Economists tend to be somewhat snobbish about awards. *The Economist* recently featured an article on the British honors system titled “A ridiculous, outdated system that cannot be improved upon” (2004: 31). But revealed preferences do not support this view. *The Economist* recognizes this and does admit that “a quick glance around the globe suggests that fancy decorations are virtually universal.”

Despite the prevalence of awards, economists have largely disregarded them. There may be various reasons for this neglect. Firstly, awards may be considered to be less efficient incentives than monetary compensation, because they are not fungible. Secondly, awards may just be one result of high motivation and success and not a contributing cause. However, the majority of awards do serve as incentives, be it directly or indirectly. Awards are direct incentives, when people exert effort explicitly to win the award, such as for a ‘Best Customer Service 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 serve as indirect incentives as they create role models, highlight the values of a society, and bring prestige also to individuals who have acted similarly without being chosen as award recipients. Thirdly, it may be thought that awards only motivate insofar as they lead to future material or immaterial benefits whose impact on behavior can be studied directly. However, Huberman and his colleagues have demonstrated experimentally that people value status independently of any monetary consequence; they are even willing to incur material costs to obtain it.

It is sometimes argued that awards are just an indirect way to compensate the recipient monetarily, as award-receiving individuals might subsequently be selected for better and higher paid jobs or might gain access to clubs with valuable networks. However, there are major differences between awards and purely monetary compensation, making it worthwhile to analyse awards as a separate phenomenon.

- 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 owes (some measure of) loyalty to 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 and/or measured ex post;
- Awards are not taxed, while monetary income is.

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. *Sportspersonality 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 arguably best source of information on the awards received by the most important personalities of society in different countries is the *International Who's Who (IWW)* where entrants are asked to indicate the number of honors and awards they have received. For a selection of 82 countries a random sample of 50 persons per country was chosen in order to generate a descriptive and illuminating picture of the frequency of awards across countries and sectors. Specifically, as a first analytical step four issues of general interest are addressed.

Are awards mainly found in monarchies?

In the past, awards have mainly consisted in 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 ABOUT HERE

Table 1 lists the countries with the ten highest average numbers 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 today awards are not solely used in monarchies. Indeed, staunch republic such as France, the United States and Switzerland are among the top ten of the 82 countries in our sample.

Aren't awards mainly a military affair?

Judging from pictures appearing in the press of soldiers and officers having their chests covered with orders, decorations and medals, it may be concluded that most awards are received by the military. However, our data suggest that awards are not mainly a military affair. Of the 82 countries in the sample, 49 countries list individuals of the military sector in their sample of individuals drawn from the *IWW*. Averaged over these 49 countries, these people receive only 11 percent of the total number of awards. In a few countries, awards focus indeed 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 army. However, these countries are the exception rather than the rule.

Are there many awards for 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 titles 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 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 is discussed in a recent article by Tom Coupé. However, academics are also rewarded with awards from outside the academic system. Many of the most respected economists in Britain have, for instance, 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 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 additional countries (Netherlands, Germany, and Australia) half or more of the awards go to the academic sector. Hence, individuals in the academic sector are among the major recipients of awards.

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 performance evaluated in monetary terms, as is reflected in the increasing importance and prevalence of Pay-for-Performance schemes. However, already 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 ten shares of stock. Awards also play a substantial role in high technology firms as the over 20 different awards handed out in the IBM research laboratories demonstrate.

Across our set of 82 countries, the average individual has 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 *International Who's Who*, who are typically not eligible for business awards. 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 *IWW*, for example, receive a substantial number of awards, even more than the respective persons from the US.

Conclusions

This article argues that awards are prevalent, but neglected incentive instruments distinct from monetary compensation. As a first step in addressing this important phenomenon, four stylized facts on awards are presented. In particular, awards are neither solely a feature of monarchies nor only a military affair. Awards play a large role in the civilian sector, especially in academia and in business. In future research we will more closely analyze the incentive properties of awards in the corporate sector as well as the determinants of award frequency across different countries and sectors.

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Table 1: Average Number of Awards per Individual per Country

	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