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# AWARDS: A STRATEGIC MANAGEMENT PERSPECTIVE

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***Research summary:*** *Awards are a valuable strategic resource. Motivation theory and the emerging body of empirical literature suggest that awards can have a significant effect on employee motivation and corporate performance, though not always in the intended direction. Awards can also destroy value. The organizational award literature has so far largely neglected this important issue. We develop a synthesis of the dimensions critical for successful award bestowals, and analyze under which conditions awards generate firm-specific value that is sustained and difficult for competitors to imitate. The process of value creation and capture is contingent on the given firm's organizational characteristics and nature of production. The article concludes by laying out empirical implications. JEL codes: M52, M54, J24, J30.*

***Managerial summary:*** *Awards are widely used in the corporate sector. They fundamentally differ from monetary incentives, which risk crowding out employees' intrinsic motivation. Among the variety of awards, two general types can be distinguished: confirmatory awards based on explicit, pre-determined performance criteria, and discretionary awards, which rely on broad performance evaluations and may be used ex post to honor outstanding performance. Appropriately designed and adjusted to the specific firm's characteristics, awards enhance employees' motivation and corporate performance. They express recognition and support their recipients' perceived competence and social status. Awards help to retain valuable employees and to establish role models. However, awards may also backfire, for instance, when they provoke envy among coworkers. We propose when awards risk destroying value and when they are particularly useful.*


## INTRODUCTION

Employees are widely considered to be among the most important sources, if not *the* most important source, for achieving sustained competitive advantage (e.g., Barney, 1991; Jackson, Schuler, and Werner, 2012; Lepak, 2007; Pfeffer, 1994). Financial compensation has received the most attention among the possible means for motivating employee performance. However, there is by now ample literature highlighting the limitations of monetary incentives. Not only is money shown to often be ineffective at sustaining employees' motivation; it may even backfire due to motivation crowding-out (Deci, Koestner, and Ryan, 1999; Frey, 1997; Frey and Jegen, 2001), strategic behavior, and social comparison costs (Larkin, Pierce, and Gino, 2012; Nickerson and Zenger, 2008).

Cognizant of these potentially negative effects of monetary compensation, firms are increasingly using awards in an effort to sustain and raise employee motivation (e.g., Nelson, 2005). Awards are a special kind of nonfinancial incentive (Jeffrey and Adomdza, 2010; Oyer, 2008) whose value

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resides primarily in the recognition conveyed in public. There is a sheer uncountable number of different forms of awards, ranging from gold trophies to silver stars and purely symbolic tokens of appreciation. More and more organizations in both the private and nonprofit sectors have developed award programs as a central part of their human resource strategies. Yet, surveys show no significant improvement in the fraction of employees who feel they get sufficient recognition at work (e.g., Maritz, 2012: 1).

The importance of awards in the workplace and society has been pointed out by Frey (2005, 2006, 2007), arguing that awards provide a valuable means for motivating people. However, recent research has shown that awards may also crowd out motivation and induce employees to game the awards program (Gubler, Larkin, and Pierce, 2014). Awards may motivate CEOs to extract higher compensation and engage in image boosting activities, such as writing books, at the expense of their firms' performance (Malmendier and Tate, 2009). They may lead top scientists to pursue activities they themselves see fit, lowering their contributions to the standard scientific discourse (Borjas and Doran, 2013).

Designing and implementing an award program that helps a firm obtain long-lasting competitive advantage is difficult. As the survey by Jeffrey, Dickinson, and Einarsson (2013) on the use of reward and recognition awards shows, managers using awards so far cannot base their decisions on high-quality information (see also Hammermann and Mohnen, 2014: 327). A number of human resource experts claim that "most recognition programs reward the wrong things" (Weber, 2014). Gubler *et al.* (2014) caution that introducing an award system that is not well designed is a waste of resources and can even have a significant negative impact on firm performance.

This article first analyzes how awards create value by tapping employees' effort and motivation. We use motivation theory and discuss the emerging body of empirical literature on the causal effects of awards on performance. The second part addresses the critical aspect of value capture, discussing how awards may help the firm to retain valuable employees. Designing and implementing award programs is a complex challenge; it does not always produce the intended effects. In a third part, we therefore look more deeply into how awards can destroy value. The literature on organizational award programs has so far largely neglected this important issue of how awards can backfire. We develop a first synthesis of the dimensions that are critical for successful award bestowals. The fourth part explains how the process of value creation and capture is contingent on the given firm's organizational characteristics and nature of production, and the fifth part outlines empirical implications.

## VALUE CREATION THROUGH MOTIVATION

Our analysis of how awards create value at the firm-level begins with how they enhance motivation and performance at the individual-level. This approach is in line with both the strategy and the strategic human resource management (HRM) literatures, which consider how HRM practices shape the firm's human capital resource through their effect on employees (e.g., Nyberg *et al.*, 2014: 319).

Management can positively influence the behavior of both, recipients and nonrecipients of awards. We first discuss theoretically and empirically how, under identifiable conditions, awards enhance their recipients' intrinsic motivation and induce a crowding-in effect (Frey, 1994, 2006). We then turn to how awards are used by management to create role models and subtly steer the behavior also of nonawarded employees.

### Motivational crowding-in

#### *Theory*

Intrinsic motivation is an important source of employee and organizational performance. In many sectors, it is crucial for organizational success (Osterloh and Frey, 2000; Weibel, Rost, and Osterloh, 2010), in particular, where monitoring is costly and performance ambiguous (Ouchi, 1980). Employees' intrinsic motivation for job-related activities risks being crowded out by extrinsic rewards, in particular by variable performance pay (Frey and Jegen, 2001). Awards are extrinsic rewards, yet they are nonmaterial. Similar to verbal reinforcements (Atkins and Parker, 2012) and tangible nonmonetary rewards, awards are less likely than money to crowd out intrinsic motivation. They even have the potential to support it (Frey, 2006).

Competence, autonomy, and relatedness enhance intrinsic motivation (Deci and Ryan, 1985; Ryan




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and Deci, 2000). Awards are well suited to cater to all three of them. They recognize their recipients' competence and merits and draw public attention to their extraordinary achievements. Of the two basic types of awards, *confirmatory* and *discretionary* awards[1] (Frey and Gallus, 2014a), the latter are particularly unlikely to infringe on employees' perceived autonomy. Discretionary awards differ most fundamentally from explicit *ex ante* incentives. They are given *ex post* for outstanding behavior, and often come as a surprise. They allow management to recognize effort and performance more broadly, without the need to exactly quantify the underlying activities. This makes discretionary awards less obtrusive than most other extrinsic rewards and reduces the risk of crowding-out. Management may even support employees' perceived autonomy by signaling support and recognition for their achievements. This bolsters employees' perceived autonomy and can moreover strengthen their relatedness to management and the organization, thus further enhancing intrinsic motivation.

Awards also have the advantage that their symbolic content may substitute for their actual material value (e.g., prize money). Purely symbolic awards allow creating value at negligible cost, not least because they confer status on their recipients. A monetary prize, in contrast, may dilute the signal of merit and dispute the winners' intent. Yet, the question remains whether awards induce behavioral change if they carry no monetary value. Standard economics would reject such a claim.

### *Empirical evidence*

The literature on awards is still in its beginnings, despite the patent relevance of the topic in practice. Table A1 in the Appendix gives an overview of the current state of the empirical literature on the performance effects of awards. It presents the respective award, the field in which it is given, the performance dimensions of interest, the research design used, and the results. The following discussion focuses on the studies that relate to the strategic management perspective on awards.

Several empirical studies show that awards are highly coveted even with no money attached. Larkin (2012) analyzes a nonmonetary award for salespeople and finds that employees' willingness to pay for this award substantially exceeds the costs the company incurs. This insight is supported by laboratory experiments (Huberman, Loch, and Önçüler, 2004; Kosfeld and Neckermann, 2011) as well as field data. Using a natural experiment in Sweden, where an order of merit for CEOs was suddenly discontinued, Siming (2015) finds that shareholders had to financially compensate CEOs for the lost opportunity of being symbolically awarded. Two other studies (Malmendier and Tate, 2009; Wade *et al.*, 2006) look at CEO awards bestowed by the business press (e.g., CEO of the Year), confirming that managers place great value on nonmonetary symbols of distinction.

Neckermann and Frey (2013) suggest that non-monetary dimensions of awards, in particular, sincere appreciation and public recognition, can substitute for prize money. Adding money to awards is no guarantee that they have a long-term effect on performance (Neckermann, Cueni, and Frey, 2014).

In a field experiment focusing on purely symbolic awards, Gallus (2015) shows that awards are able to substantially raise the retention rate among new contributors on Wikipedia, even if no material or career-related benefits can ensue. Peer-to-peer rewards frequently exchanged among Wikipedians have also been found to raise the contribution level of top performers (Restivo and van de Rijt, 2012). These studies suggest that social status as such is a valuable good; individuals are even willing to incur costs to attain it (e.g., Eckel and Ball, 1996; Huberman *et al.*, 2004; for the current state of research, see Charness, Masclet, and Villeval, 2014).

## Role models

### *Theory*

Management may use awards to celebrate and create role models, motivating nonawarded employees to emulate the desired behavior. As Coff and Kryscynski (2011: 5) argue, "role models espouse norms that others may internalize even if incentives cannot be aligned." Where individuals' expected contributions cannot be defined, identified, and measured, it is impossible to set *ex ante* incentives that induce employees to adopt the norms and

[1] While *confirmatory awards* are highly automated, given at prespecified time intervals, and based on clearly defined performance criteria (e.g., the number of contracts sold), managers bestow *discretionary awards ex post* to outstanding behavior (often as a surprise) and without having to exactly specify the behavior thus recognized (e.g., helpfulness). It is the managers' decision whether, what for, on whom, and when to bestow discretionary awards.



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behaviors required. Awards as an organization-level routine help encourage and maintain a corporate culture built on these norms and behaviors (Schein, 2004). The publicity of the award conferral serves to clearly indicate what behavior or work attitude management deems important.

Through their festive nature and the visual material documenting the award ceremony, awards have a higher salience value than money. This explains why nonfinancial rewards may affect behavior more sustainably than do cash benefits (Jeffrey and Adomdza, 2010). Awards help management communicate a narrative that employees remember (see Levitt and Dubner, 2014: 181–188; McKee and Fryer, 2003). This increases both the duration of the award's impact and the reach of the signal emitted, spreading management's message also to more distant parts of the organization.

### *Illustrations*

Many award programs are targeted at the establishment of role models that shall motivate the workforce at large to adopt certain norms or act according to the company's values. Since there is scant literature on this issue, we provide company examples illustrating the prevalence of this use of awards.

Companies such as Holcim, one of the world's leading suppliers of cement and aggregates, implement Safety Awards to encourage employees to pay heed to the company's Organizational Health and Safety guidelines. This goal would be difficult to communicate and enforce by handing out bonuses and other high-powered incentives. Such incentives would shift the focus on the reward and make the desired behavior purely instrumental. Awards, in contrast, celebrate individuals respecting the safety instructions, emphasizing their exemplary behavior. They also provide management an occasion to remind employees throughout the year of the importance of respecting the instructions.

Unilever, a multinational consumer goods company, honors a highly select group of employees as Unilever's Heroes for having shown great passion, dedication, and initiative. The award program aims to recognize and showcase individuals who have gone "the extra mile," sharing their story on the global web page so as to inspire others and demonstrate the company's values. Employees can nominate their coworkers for an award, such as Brave Actions, Fresh Thinking, Outstanding Commitment, or Passion and Drive. The award is focused on the employees' exemplary engagement, and not on what employees receive if they behave in a certain way. Hence, it is the behavior that is focal, not the reward. The labeling of the award recipients as heroes also emphasizes that the program is aimed at creating role models.

## VALUE CAPTURE

Firms have to be able to capture the value created through awards. An important condition for value capture is that awarded employees cannot appropriate the award's value by using it to achieve higher wages in the labor market. There are several dimensions of awards that limit their portability and the risk that awarded employees will be induced to leave the firm.

### Retaining valuable employees by using awards

Following Campbell, Coff, and Kryscynski (2012), firms can limit their employees' mobility by influencing the supply side of labor, that is, employees' readiness to accept external offers. Awards are of particular interest in this regard since they affect the loyalty relation between the award recipient and management (Frey and Gallus, 2014b). Managers presenting awards to employees signal their intent to establish an implicit relational bond (see Rousseau, 1989, 1995, on psychological contracts). The bonding signal is the stronger the more managerial discretion is involved in the bestowal, or vice versa, the less automatic is the selection process.

On the employees' side, accepting an award signals approval of and support for the organization's values and goals. The signal is projected outward, but the process also involves self-signaling. The self-signaling of one's intent to be loyal to the firm is the stronger the less money is involved in the award bestowal. Employees having accepted a purely symbolic award are more likely to attribute their action to their own intent of being loyal to the firm.

The process of accepting and adopting the organization's goals and norms leads to their internalization, which is of great value for organizational performance (O'Reilly and Chatman, 1986; Ouchi, 1980) and raises organizational identification.[2] An

[2] Ashforth and Mael (1989: 21–22) succinctly distinguish the two concepts by noting that, "[w]hereas identification refers to self in terms of social categories (I am), internalization refers to the

Table 1. Award types and characteristics

| Types | Characteristics |
|---|---|
| Medals, prizes, certificates, trophies, badges, ribbons, plaques, honorary titles, distinctions, orders, crosses, decorations | With or without money or gift<br>Incentive: *ex ante* (predetermined criteria) vs. *ex post*<br>Regular vs. irregular bestowal<br>Frequent vs. rare event<br>Confirmatory vs. discretionary vs. lottery<br>Receipt: expected vs. unexpected<br>Decision: peers vs. management vs. experts<br>Recipients: (a) Individual vs. groups or organizations<br>(b) Insider vs. outsider<br>(c) Number of winners |

award's visibility and exclusiveness increase the likelihood of organizational identification (Dutton, Dukerich, and Harquail, 1994), which enhances employee loyalty, cooperation, and performance (Jeffrey and Adomdza, 2010; O'Reilly and Chatman, 1986). Through their effect on loyalty, awards help firms foster the retention of crucial employees, and thus, facilitate value capture. Awards are a particularly suitable retention strategy if firms manage to create high symbolic value since, under this condition, they "promote retention without allocating the rent" (Coff, 1997: 381).

The social bonding processes and relations awards enhance are impossible to imitate for competitors. As Campbell *et al.* (2012: 383) observe, this is quite unlike financial compensation and market-based benefits, which are easily imitable. In contrast, nonpecuniary rewards such as social networks or an environment where specific values are nurtured cannot easily be recreated in another firm.

By tying awards to firm-specific skills, firms can encourage employees to invest in the respective resources; however, this increases employees' dependence on the firm (e.g., Becker, 1964; Grant, 1996). As a relationship-based employee governance mechanism, awards help to compensate for employees' costs of making such specialized investments (Wang, He, and Mahoney, 2009).

Designing and implementing an effective award program is a complex challenge for which no blueprint exists. It involves choosing among many different dimensions of award programs, such as whether to include a financial component, whether to announce predetermined criteria for winning, how many persons can win the award, whether the award is handed out regularly, and if so, in which frequency (Table 1 offers an overview of the different award dimensions to consider). Each of these dimensions is complementary to the others and interacts with the organization's characteristics and resources. A poorly designed award program risks destroying value for the firm.

## VALUE DESTRUCTION

The awards literature has, with the exception of Gubler *et al.* (2014), so far neglected the issue of value destruction. This is an important shortcoming in particular given the increasing use of awards in many domains. We aim to provide a first systematic discussion of the risks associated with award bestowals from a strategic management perspective. We establish the most important sources of value destruction related to awards. Analyzing the conditions under which awards are likely to backfire allows us to identify the critical dimensions companies need to get right when using awards.

### Sources of value destruction

*Unintended motivational effects*

Awards may negatively impact the motivation of both, their recipients and nonawarded employees. For award recipients, two main undesirable effects can arise. First, awards may induce motivation crowding-out. This is particularly likely to occur (see first rows of Table 1) when a substantial amount of money is added to the award, when it is based on clearly determined criteria requiring a measurement

incorporation of values, attitudes, and so forth within the self as guiding principles (I believe)." The two concepts are closely related to psychological attachment (O'Reilly and Chatman, 1986) and the psychological contract literature (Rousseau, 1995).

of performance, and hence, a degree of control over the winner's behavior, and when the award is given on a regular basis and in high frequency (reducing the signal's distinctiveness and the sense of recognition). In general, discretionary awards are less likely to crowd out their recipients' intrinsic motivation since their criteria are deliberately left vague, allowing for a broad and encompassing recognition of effort and performance. As it is the managers' decision whether, what for, on whom, and when to bestow awards, discretionary awards better signal the managers' wish to enter a special relationship and recognize the employee thus honored. The resulting sense of relatedness reinforces intrinsic motivation rather than crowding it out.

The second unintended effect awards can have on their recipients is reinforcing overconfidence. The winners may start to treat coworkers disrespectfully, or they may argue for a wage increase or accept an outside offer. These effects are particularly likely to arise when the prize money is high or when the same employee is awarded several times in short frequency.

A major unintended effect of awards on nonrecipients is to demotivate them. If the company award scheme only includes awards that are set up as *ex ante* incentives with high performance requirements on a limited range of performance dimensions, many employees may feel they have no chance of winning and give up altogether. Regular and relatively frequent award bestowals may partly mitigate this since they give others a chance to win the award in the future. However, this may entail award inflation. Confirmatory awards are more likely to entail such negative effects on nonrecipients because they only confirm the existing performance hierarchy, giving accolades to the already established corporate stars (e.g., the best salespeople) while neglecting less obvious candidates (e.g., those who continually put in great effort and help others, but whose performance is less quantifiable).

Other potential risks of awards with explicit, predetermined criteria include multiple tasking and strategic behavior, where employees unintentionally or intentionally shift their focus on the performance dimensions relevant for winning the awards while neglecting other important tasks (Holmstrom and Milgrom, 1991). Outright manipulation of the award program is most likely to occur when clear performance criteria are coupled with considerable prize money or other highly valuable rewards (e.g., vacation). In all these cases, the award program may severely hamper firm performance.

### *Social comparison costs*

When considering not only the individual-level, but also the unit-level, where group dynamics come into play, it becomes clear that it would be mistaken to simply extrapolate from the individual-level observation, concluding that awards will increase aggregate performance as well (see Ployhart, 2004; Ployhart and Moliterno, 2011; Rousseau, 1985, on the cross-level fallacy). The effect may well be reversed when accounting for the fact that not everybody can be awarded. As Churchill put it in a speech to the House of Commons in March 1944: "[ … ] a distinction is something which everybody does not possess. If all have it, it is of less value."

An award needs to remain scarce to prevent inflation from reducing its value (Gavrila *et al.*, 2005). Nonawarded employees, who are almost by definition in the majority, may react favorably and identify with the award recipient, or they may be envious and engage in retributive behaviors that harm firm performance. Several dimensions of awards determine their effect on nonwinning employees (Table 1). The risk of social comparison costs is the higher the greater is the award's material value (prize purse), the less clearly the criteria can be specified *ex ante*, the less coworkers can observe performance *ex post*, and the more frequently the award is given to the same individuals. While confirmatory awards based on explicit and prespecified criteria initially reduce the risk of social comparison costs, over the long term, this advantage vanishes if the scheme produces a select group of repeat winners who always fare best according to the performance dimensions chosen. The different dimensions also interact, such that risk is compounded, for instance, when considerable prize money is tied to unclear selection criteria.

To mitigate the risk of social comparison costs, companies may combine different award types, in particular, confirmatory and discretionary awards. This allows spreading the reach of the award program without tarnishing the value of the individual award due to inflationary use. Including awards that involve coworkers in the decision-making process as well as group awards in the award scheme improves procedural fairness and lessens the perception of failure. Ultimately, the question of which combination of award dimensions prevents social



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comparison costs from arising depends on the company's characteristics. For instance, an organization with a small workforce will resort to a different award program than one that has many workers who perform a variety of different tasks and are geographically spread out over multiple countries.

## Empirical evidence

### *Unintended motivational effects*

To the best of our knowledge, so far only one contribution empirically studies value destruction. Gubler *et al.* (2014) use field data from an attendance award program, showing that poorly designed award programs can cause significant costs for companies. The award scheme induced employees to game the program (e.g., calling in sick to retain eligibility) and lowered the productivity of previous high performers by 6–8 percent, which suggests that crowding-out took place. Plant productivity as a whole was decreased by 1.4 percent due to the award program.

However, another study (Markham, Scott, and McKee, 2002), also analyzing the effects of an attendance award scheme, finds a significant positive effect on attendance (reducing absenteeism by 29–52%). The program had a number of notable characteristics. It was clearly announced *ex ante*, it had two levels (good and perfect attendance), the names of employees were publicly displayed with a gold star next to them, congratulatory cards were sent to them, and a plant-wide celebration was organized where plant management ceremonially recognized good and perfect performers with awards and symbolic mementos.

Contrasting this award program to the respective dimensions in Gubler *et al.* (2014) reveals several noteworthy differences. The awards studied by Gubler *et al.* consisted in a $75 gift card that was raffled off among employees with perfect attendance. There was no special signal of recognition by the manager (as with the ceremonial award bestowal and congratulatory card in the other study), and the award was not personalized. This significantly reduced the award's value and signal of merit. Moreover, the selection mechanism failed to recognize employees who had already in the past behaved in the desired manner, instead rewarding employees who only strategically changed their behavior to receive the reward. The study shows the risks and costs of making the monetary or material aspect salient. The clearly announced performance criteria invited employees to game the program. The award became an explicit *ex ante* incentive and was based on a strong degree of control; employees had to minutely record their work times and were already disqualified when arriving five minutes late just once. Such controlling measures reduce employees' feeling of autonomy, thus potentially crowding out their intrinsic motivation.

### *Social comparison costs*

Third-party effects, including potential social comparison costs (e.g., envy), are largely absent from the empirical literature on awards, though they are crucial for the aggregate effectiveness of award programs. Social comparison processes have also not yet received much attention in the strategy literature more generally; but there is some recent research providing considerable advances (Larkin *et al.*, 2012; Nickerson and Zenger, 2008) and giving a useful overview of research on the topic. These studies focus on the consequences of monetary compensation. A study by Greenberg (1988) suggests that similar social comparison costs can arise from nonfinancial rewards. Increasing the status of workers by randomly reassigning them to higher status offices motivated them to raise their performance for a short while, but employees feeling under-rewarded lowered their performance in response.

Most managers using awards are astutely aware of the potential negative third-party effects they can entail (Neckermann and Frey, 2013). Several measures are commonly taken to reduce the risk of social comparison costs. The argument that the selection process has to be as transparent and verifiable as possible is a common response. This may explain the prevalence of confirmatory awards, honoring for instance the Best Salesperson based on the number of contracts sold. Potential costs caused for instance by manipulation and demotivation are neglected on grounds of justifiability. Supplementing such confirmatory awards with awards based on managerial discretion is not always possible and depends on other organizational characteristics (see further below).

A measure for increasing justifiability without repeatedly honoring a small group of top performers is to tie awards to seniority. Pixar, the computer animation film studio that has produced blockbuster movies such as *Toy Story*, provides an illustration. Its employees receive the golden Buzz statue with their name on it for "10 Years of Passion and Commitment." The golden Woody statue is given for 20 years of tenure. Whether a firm is able to give awards that are purely symbolic and yet highly valued depends on its ability to leverage other resources it possesses. Pixar uses two of its cartoon heroes that employees are proud of to create a symbolic value that substitutes for the use of a high-powered monetary prize. This also makes the award impossible to imitate because it is based on a company-specific resource, that is, highly esteemed products that are emblematic for the firm.

The Unilever's Heroes award is equally devoid of any monetary prize. It also features another design choice often observed in practice to reduce the risk of social comparison costs, the involvement of employees in the selection process. Unilever asks employees to suggest coworkers for the Unilever's Heroes award. This improves the perception of procedural fairness since in theory everyone can participate in the program. As a form of "360-degree feedback," such suggestion mechanisms moreover reduce the risk that deserving employees are forgotten. This is particularly helpful where there are no predefined performance criteria that automatically produce a winner, but where instead the award is based on vague criteria, such as incorporating the company's values.

## COMPLEMENTARITIES FOR SUSTAINED VALUE CREATION

The effectiveness of an award program crucially depends on the particular firm's nature of production and organizational characteristics. Many companies use a combination of discretionary and confirmatory awards, besides other rewards and incentives. Management has to consider the possible complementarities and interactions that affect the value of the single components of the overarching human resource strategy.

### Nature of production

#### *Activity sets*

Organizations relying on complex tasks where performance cannot be monitored or contracted, and where outcomes are not readily discernible, can leverage important complementarities with awards. First, alternative incentives to awards (e.g., bonus pay) are difficult to apply under such conditions. This makes awards more important as a motivation instrument to generate value for the firm. Second, managers enjoy greater discretion in such contexts since complex tasks do not lend themselves to control by other constituencies (e.g., rival inside forces, regulators). As argued by Peteraf and Reed (2007: 1095), "[a]ctivity sets that are more complex, harder to specify, tacit in nature, and whose outcomes are causally ambiguous (Lippman and Rumelt, 1982) are less susceptible to external interference," and hence, offer greater managerial discretion. Greater discretion at all levels of management allows to achieve better fit since managers can adapt the awards to the specific organizational characteristics, goals, and environment. Discretionary awards also allow managers to emit more personalized signals than what is possible with automatic selection by confirmatory awards, thus enhancing the recipients' loyalty to the firm.

The greater dependence on specific individual-level managerial capabilities implied by discretionary awards moreover impedes imitation by competitors. Managers have to choose among many different award dimensions (Table 1). They have to decide which types of awards to combine (e.g., discretionary, confirmatory); how selectively to design the award scheme; whether to involve employees or outsiders in the selection process; and whether to include different award levels. Getting all of these dimensions right is difficult and makes imitation hard, not least since what is the right constellation depends on the particular firm and its idiosyncratic pool of human capital (Wright, Coff, and Moliterno, 2014: 365).

Managerial experience and tacit learning by doing are important for designing awards that fit the specific organizational resources and characteristics. They contribute to award programs' path-dependent nature (Hatch and Dyer, 2004). As noted by Shamsie and Mannor (2013), tacit knowledge in general is acquired through substantial practice and is highly firm-specific, since it depends on "a social setting, in which [managers] must learn to interact with others within a particular group or organization" (2013: 516). Long-tenured managers not only have more experience and know the company better, they are also more likely to be seen as representatives of the company, making them suitable sources of esteem that raise the award's value.

*Production technology*

A firm's choice of production technology determines the degree of interaction, of team production, and the spatial proximity of workers (Nickerson and Zenger, 2008: 1437). Firms can use award programs more effectively if their production technology allows for a high degree of interaction between managers and employees. First, this enhances managers' ability to make an informed selection of award recipients. Second, where managers can observe employees' general work input as a byproduct of the work process, they need not tie awards to predetermined criteria and use potentially obtrusive instruments for assessing performance. Third, a high degree of interaction allows managers to gain information about the employees' preferences and personalize the awards, which enhances their motivational effect.

The degree of team production moreover shapes the social comparison processes within the company (Nickerson and Zenger, 2008: 1437). Team production hinders management to observe and verify relative individual contributions (Alchian and Demsetz, 1972) while it increases the intensity of social comparisons among team members. Under these conditions, offering high-powered incentives for individuals risks inducing envy and shirking. Conditional on firm size, management may use group awards in such team production environments.

## Firm scope and scale

*Theory*

As Nickerson and Zenger (2008) show, the social comparison costs arising from individual performance pay become prohibitive with increasing firm scope (number of activities) and scale (number of employees). The same is not true with awards since their value is not one-dimensional and can hardly be compared with that of other rewards. Awards benefit from increasing organizational scope since a greater number of activities allows for a greater diversification of the award program. More performance dimensions on which individuals compare weaken the perceived zero-sum nature of competition for status. Contrary to monetary incentives, award systems also benefit from organizational scale since this allows management to regularly bestow awards without risking award inflation.

Larger firms and those uniting many activities tend to have more complex award schemes, requiring a higher degree of coordination among the different award bestowals and aggravating imitation for competitors. For smaller firms, regular bestowals risk either being taken for granted (passing the award around) or entailing social comparison costs. Yet, smaller firms have the advantage that their award programs are less complex. Managers may more readily acquire information on employee performance since there are fewer employees to evaluate and interaction with them is more frequent. Over the long term, however, these advantages impede value capture as reduced complexity facilitates imitation, and since such award programs hinge on individual managers rather than an institutionalized process.

With increasing firm scope and scale, individual performance pay becomes less attractive while awards become more suitable. Awards are complementary to flat wages. Where firms are not able to offer workers their marginal product of labor because of excessive social comparison costs, they may incentivize and recognize exceptional productivity by resorting to awards. Moreover, firm scope and scale are complementary with award schemes that make individual expertise more visible. As awards serve as signals of quality that other employees can interpret, their value for the firm increases with its scale and scope.

*Illustration*

IBM is a multinational technology and consulting corporation whose success is predicated on the excellence of its scientists. It has a wide range of awards, including confirmatory and discretionary awards, some with large prize purses and others providing symbolic recognition and possibly a gift (e.g., dinner vouchers; Frey and Neckermann, 2009). IBM's nonmonetary awards allow its managers to recognize a wide range of activities, while its highly coveted IBM Fellows award serves to motivate the top scientists.

The IBM Fellows program is a prime example for a company award that is of considerable strategic value for the firm. Its yearly bestowal is a company tradition that has been in place for more than 50 years without being prone to inflation. The award's reputation greatly benefits from its former recipients, five of whom are Nobel Laureates. Thus, the company has leveraged its very specific



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resources in a way that allows it to incentivize top performers. As Nickerson and Zenger (2008) show, firms that are large in scale and scope have to strike a delicate balance between the incentives used for top performers and the remaining employees' wage equity concerns. By using awards to motivate top performers, IBM lessens this tension. Other employees may even take pride in belonging to the unit that gave rise to a superstar. To ensure value capture, the award is tied to an ambassadorship for winners, with the clearly communicated expectation that they further invest their effort in the company.

## EMPIRICAL IMPLICATIONS

Focusing on some of the most important award dimensions and firm characteristics, and how they affect value creation and capture, allows us to derive empirical implications on when we should see award programs succeed.

### Prize money

Adding prize money to awards clearly establishes their value and serves as extrinsic motivation for employees to raise their performance. Yet, it may also crowd out intrinsic motivation and reinforce social comparison processes resulting in value destruction. Using purely symbolic awards reduces these risks while also lowering the program's costs. Such awards are moreover better suited for creating role models since the signal of merit is not tarnished by money.

A monetary prize negatively impacts value capture since it ascribes a well-interpretable value to the underlying performance. The mere presence of money can moreover change the context and nature of the relationship between award giver and recipient (Heyman and Ariely, 2004) as well as the recipient's self-signaled intent, reducing the likelihood that the award establishes a bond of loyalty.

Whether a firm is able to forego money as a source of value for its awards depends on the firm's managerial capabilities. It is also contingent on the nature of its activity sets. These shape the form of the existing compensation scheme and the degree of managerial discretion. Complex tasks that are tacit in nature complicate the use of alternative incentives, making awards relatively more efficient as a motivator. In contrast, where high monetary incentives exist, adding prize money to awards may reduce their value as it facilitates comparability. For the awards to be recognized as valuable by potential recipients, substantial money needs to be added, which reduces rents. Firms may substitute the monetary prize with symbolic content. One important source of symbolism is the personal bonding signal emitted by managers, which is the greater the higher is the degree of managerial discretion.

### Predetermined criteria

Using awards with predetermined criteria sets explicit incentives for employees. However, specifying criteria also risks inducing multiple tasking and strategic behavior. It is often assumed that clearly announced criteria guarantee the fairness of the selection process. This argument, however, no longer holds where activity sets involve complex tasks, which are difficult to measure and hence require personal judgment in evaluating performance.

Value capture is enhanced if firms can abstain from using predetermined criteria. First, ambiguous award criteria impede competitors' ability to interpret award recipients' quality and poach them away. Second, awards that are given *ex post* for outstanding behavior enhance motivation and strengthen the bonds of loyalty if they can be based on managerial discretion. Firms whose production technology allows managers to frequently interact with employees can more effectively use such discretionary awards that are based on encompassing evaluations of effort and performance rather than standardized, predetermined criteria. They are in a better position to create and capture value with awards.

### Regularity and frequency

Regular award bestowals serve as *ex ante* incentives for employees to strive after. For nonrecipients of a given award round, regularity and greater bestowal frequency raise the chances of being awarded in the future (*ceteris paribus*). This reduces social comparison costs. Regularity and frequency impact the total number of awards bestowed in a given company and therefore affect the awards' value. The larger a firm and the greater the variety of tasks, the more frequently it can bestow awards without risking award inflation. The greater experience with awards enhances the learning process, which may



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be institutionalized through a dedicated structure for coordinating and managing awards. Such institutionalization is important for value capture since it allows the firm to pass from individual-level managerial capabilities to firm-level capabilities that are less dependent on single managers at specific points in time.

There are many different constellations in which the award dimensions and organizational characteristics outlined interact, with varying implications for value creation and capture. While not all the different interactions can be accounted for, we can outline several important generalizations for the aggregate organization- and industry-levels.

### Generalized implications

Awards are particularly valuable in knowledge-intensive industries and for knowledge-intensive organizations within each industry. As highlighted by Gambardella, Panico, and Valentini (2015: 37), "motivating skilled people to perform in knowledge-intensive activities, to create a sustainable competitive advantage for the firm, is a widely recognized challenge in both academic literature [ … ] and managerial practice [ … ]."

Since it is less easy to observe effort and monitor performance of knowledge workers, firms face difficulties in designing effective incentive and compensation systems for them (Gambardella *et al.*, 2015: 37, 49). They have to rely on and support employees' intrinsic motivation. This increases the relative importance of symbolic awards for value creation. We posit that awards given for knowledge work tend to be based on vaguely defined criteria. Firms that can target their awards at firm-specific knowledge are particularly likely to succeed in creating and capturing value. They solve two dilemmas at once, inducing employees to invest in firm-specific knowledge and reducing the awards' portability by tying them to firm-specific skills.

We also expect that award programs are most likely to succeed under conditions of increased managerial discretion, that is, where managers enjoy higher latitude of action. First, the stronger relational signal enhances the recipients' loyalty to the firm. Second, managerial discretion facilitates strategic fit between the awards used and the (changing) environmental and organizational contingencies facing the firm (where strategic fit can be understood dynamically as in Zajac, Kraatz, and Bresser, 2000). In line with the strategic fit literature, we propose that higher internal fit enhances award effectiveness and efficiency (Peteraf and Reed, 2007). While we focus on activity sets, future research should elaborate further sources of managerial discretion (e.g., Finkelstein and Hambrick, 1990, distinguish high-, medium-, and low-discretion industries) to extend and test the implications we propose.

## CONCLUSION

Awards are not just a peripheral phenomenon; they are much used in practice and can have a significant effect on employee and firm performance. Successfully implementing awards is a non-trivial endeavor, however. We develop a framework on how awards create value for firms, which we substantiate with results from the literature on awards as well as company illustrations from the field. We discuss value capture and highlight factors reducing the portability of awards. In particular, this part of the article explains how and why firm-specific award programs help retain valuable employees. We next focus on an important shortcoming of the literature from the strategic management perspective, the omission of boundary conditions where awards destroy value. We analyze the difficulties of implementing award programs, highlighting the critical dimensions firms need to get right in order to create value with awards. There is no one-size-fits-all solution for how firms can implement effective award programs. The subsequent part analyzes how the nature of production and other organizational factors (e.g., scale and scope) influence the creation and capture of value through awards. The final part sets forth empirical implications on how and when we should see award programs succeed.

We draw on several streams of literature (e.g., beyond the resource-based-view, strategic HRM, strategic fit, managerial discretion) to develop a first systematic framework for better understanding the strategic antecedents and implications of company award bestowals. This advances the emerging literature on awards in several respects; most notably, by analyzing conditions under which awards backfire, by outlining how firms can safeguard the rents created, and by shifting the focus away from individual awards to entire award programs. While past research has looked at specific awards, we discuss how firms can develop firm-level capability that allows them to increase and repeat the success of their entire award scheme (spanning, e.g., discretionary and confirmatory awards). This implies considering new issues, such as complementarities and substitution effects between different awards, and between awards and other incentives in place.

The article seeks to contribute to the strategic management literature by introducing a neglected topic: awards. Award bestowals correspond to the practices that Campbell *et al.* (2012: 391) have urged strategic HRM scholars to study, precisely because they are less systematic and hence more difficult to imitate than the policies analyzed so far. We explain how a relationship-based incentive system such as awards affects corporate performance, jointly with firm characteristics and resources. Our inquiry pays heed to the challenges associated with the multilevel perspective. We exert great caution when extrapolating from individual-level origins of value creation to unit-level outcomes, for instance, when considering value destruction. With our analysis of social comparison processes, we moreover integrate another topic that has not yet received much attention in the strategy literature. By introducing awards as a valuable strategic resource, we hope to motivate further research on this subject, which plays such a prominent role in practice.

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## APPENDIX

Table A1. Empirical literature on the effects of awards

| Field | Performance dimension | Authors | Award | Research design | Result |
|---|---|---|---|---|---|
| Society | General | Frey (2006) | Honors, state orders | Analytic narratives | Awards are more efficient where performance is ambiguous |
| Business | Attendance | Markham *et al.* (2002) | Attendance award program, *ex ante*, symbolic | Quasi-experiment, manufacturing plants | Increase in attendance (absenteeism lowered by 29–52%) |
| | | Gubler *et al.* (2014) | Attendance award program, *ex ante*, lottery, gift certificate | Quasi-experiment, laundry plant | Gaming, Crowding-out, reducing plant productivity by 1.4% |
| | Voluntary work behaviors | Neckermann *et al.* (2014) | Award for social activities, *ex post*, certificate & bonus | Panel data analysis | Positive spillover, raising core task performance by 7.4%, short-lived |
| | Knowledge sharing | Neckermann and Frey (2013) | Hypothetical award, *ex ante* | Survey experiment, IBM | Increase in stated willingness to share knowledge |
| | Sales (software) | Larkin (2012) | Entry into Sales Club, *ex ante*, symbolic & luxury trip | Field data, Regression discontinuity | Award is valued at $27,000 by average salesperson |
| | Management, leadership | Wade *et al.* (2006) | CEO of the Year medals | Event study | Positive abnormal stock returns in short-term, negative long-term impact |
| | | Malmendier and Tate (2009) | CEO business press awards | Field data, Matching | Negative effect on firm performance, CEOs turn to outside activities |
| | | Siming (2015) | Swedish orders of merit | Natural experiment, Diff-in-diff | Orders substitute for part of CEOs' monetary compensation |
| Business/state | Innovation | Brunt, Lerner, and Nicholas (2012) | Innovation awards, Royal Agricultural Society of England | Analysis of data on prize competitions | Increase in competition, medals more important than monetary awards |
| | | Moser and Nicholas (2013) | Innovation awards, Crystal Palace Exhibition | Analysis of US patent data | Prizes encourage future innovation (40% increase in patenting) |
| Lab | Rent-seeking game | Huberman *et al.* (2004) | "Winner" tag, applause, *ex ante* | Laboratory experiment | People are willing to forego material gain to attain public recognition |
| | Data entry | Kosfeld and Neckermann (2011) | Congratulatory card, *ex ante* | Experiment with students | Increase in performance by 12% |

## APPENDIX

Table A1. Continued

| Field | Performance dimension | Authors | Award | Research design | Result |
|---|---|---|---|---|---|
| Science | Knowledge production | Chan *et al.* (2014) | John Bates Clark Medal | Synthetic control method | Increase in publications & citations (13 & 50% after 5 years), long-lasting |
| | | | Econometric Society Fellowship | Synthetic control method | Increase in publications & citations (15 & 37% after 5 years), long-lasting |
| | | Borjas and Doran (2013) | Fields Medal | Comparing winners with contenders | Decline in winners' productivity (publications, citations, students mentored) |
| Public good | Knowledge production | Gallus (2015) | Award given by committee of editors, *ex post*, symbolic | Field experiment, German language Wikipedia | Increase in newcomer retention rate by 20% |
| | | Restivo and van de Rijt (2012) | Informal peer-to-peer reward, *ex post*, symbolic | Field experiment, English Wikipedia | Increase in most prolific editors' productivity by 60% |
| | Blood donation | Lacetera and Macis (2010) | Medal for meeting blood donation quotas, *ex ante* | Longitudinal data analysis | Increase in frequency of blood donations |
| Public health | Performance on test | Ashraf, Bandiera, and Lee (2014) | Congratulatory letter, mention in newsletter, *ex ante* | Field experiment, Zambia | Zero net effect |
| | Condom sales | Ashraf, Bandiera, and Jack (2014) | Stars on display in shop, *ex ante* | Field experiment, Zambia | Higher increase in effort for non-financial rewards than financial rewards |
| Arts & culture | General | Ginsburgh (2003) | Oscars, Booker Prize, other awards in the arts | Comparing winners with contenders | Positive influence of awards on winners' performance |
| | | Kovács and Sharkey (2014) | Prestigious book awards | Comparing winners with contenders | Less favorable quality evaluations for winners |

Notes: *ex ante* and *ex post* in the Award column indicate whether the award is an explicitly announced *ex ante* incentive or whether it is given *ex post*.