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Understanding the (unexpected) consequences of unexpected recognition

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ABSTRACT

Unexpected, informal recognition is common in the workplace, but rarely analyzed by academics. The few existing studies have generated surprising results: *no impact* of selective recognition on future productivity for those workers who receive recognition, but *increases* in productivity for those who do not. We confirm those results for recognition in the form of a *Thank you* message and show that the same patterns hold true with unexpected *financial* recognition. Low-performing workers do better when others are recognized but they are left out. Previous studies have all argued that the pure relative performance information that is revealed through recognition drives these effects. We test this hypothesis with a treatment that has *relative rank information* only and show that this is indeed the case: financial or verbal recognition are not necessary to induce low performers to increase subsequent performance.

1. Introduction

Corporations use a multitude of rewards to motivate employees and to create a positive work atmosphere. Incentive plans that are announced ex ante and reward good performance with financial or nonfinancial rewards are probably the most prominent and widely discussed reward schemes in the economic literature.[1] There is, however, an entirely separate set of rewards that managers use to spur motivation and effort: *unannounced* recognition of good performance. A typical

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[1] This includes the substantial bodies of research on tournament incentives, piece-rate pay of different intensities, effort under fixed pay schemes, and other forms of financial and non-financial rewards. Empirical evidence is presented, for example, in Harbring and Irlenbusch (2003) and Delfgaauw et al. (2013) on tournaments; in Lazear (2000) and Gneezy and Rustichini (2000) on piece-rates; and in Kosfeld and Neckermann (2011), Eriksson and Villeval (2012), Ashraf et al. (2014), and Gubler et al. (2016) on non-pecuniary incentives. Prendergast (1999) provides an overview of incentives in firms. To our knowledge, Neckermann et al. (2014), Bradler et al. (2016), and Mago et al. (2013) are the only existing studies that isolate ex post effects of rewards from their incentive effect.

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feature of such recognition is the surprise element. This comes from the timing of the recognition or its specific form (a pat on the back, public laudation, a dinner, or a small bonus). In that sense, unannounced recognition is concerned less with eliciting effort from agents as they work towards the rewards, which is at the heart of institutionalized incentive schemes like tournaments. Rather, unannounced recognition intends to tap into other mechanisms, including a positive affective response from being unexpectedly rewarded, a desire to reciprocate, and forces associated with the information revealed by the public recognition of good performance (the creation of role models, the establishment of a culture of good performance, status, etc.).

A tremendous amount of practitioner literature advocates the use of spontaneous recognition of good performance (see, e.g., Ventrice, 2003 or Rath and Clifton, 2004). Yet there is very little academic research on the topic of recognition and on how it affects performance. Bradler et al. (2016) and Hoogveld and Zubanov (2014) are beginning to explore these types of unexpected recognition.[2]

Both Bradler et al. (2016) and Hoogveld and Zubanov (2014) run field experiments and show that unexpected non-financial recognition of good performance increases subsequent performance. Bradler et al. (2016) hand out cards of recognition to the top three workers out of a group of eight, while Hoogveld and Zubanov (2014) provide public recognition to students who scored within the top 30 percent of their group on the first of two midterm exams. Surprisingly, in both papers it is not the *recipients* who respond – their performance remains unaffected – but those who were *not* praised or did *not* receive a card of appreciation who show increases in future performance.[3]

This finding is puzzling since the mechanisms one typically has in mind when thinking about unexpected rewards, like reciprocity, focus on the receiving individual and not on those who are left out. For example, managers praising certain employees' performances presumably intend to encourage these workers to keep up their good performance rather than affect those who they do not recognize.

Both Bradler et al. (2016) and Hoogveld and Zubanov (2014) conjecture that it is not the recognition itself that mattered for the observed effects but the relative performance information that was conveyed via the recognition. If bottom performers have a preference for conformity, they do not want to deviate from what is perceived as "normal" or acceptable behavior, and recognition provides information on how hard their co-workers are working.[4] Of course, organizational interventions only affect behavior via conformity concerns if individuals do not know their relative performance rank in their absence. Such situations are, however, thought to be commonplace. The substantial body of literature on relative performance feedback, for example, documents the sizable effects of such information on effort (for example, Falk and Ichino, 2006; Delfgaauw et al., 2013; Blanes i Vidal and Nossol, 2011; Barankay, 2011a,b).[5] The nonresponse by recipients, who by that logic should have decreased subsequent effort, is explained by a mixture of reciprocity to the recognition and conformity.

However, both papers can only conjecture in this regard because they did not include a treatment with relative performance information only. Rather, their treatments confound the information and the recognition channel.[6] Moreover, both papers only study nonfinancial recognition. In firms, however, recognition of good performance frequently comes in the form of money.[7]

[2] Grant and Gino (2010) also study informal recognition in the workplace. In their experiment, gratitude is expressed to all workers independent of their performance (by contrast, our study focuses on the recognition of good performance only). Stajkovic and Luthans (2003) suggest that the regular provision of spontaneous verbal praise, money, and feedback improves overall performance in a workgroup.

[3] Bradler et al. (2016) make it clear that there would be no further recognition and can rule out that the nonresponse of the recipients is driven by ceiling effects. Hoogveld and Zubanov (2014) find positive effects only among certain subgroups of nonrecipients (those that attended class regularly and those that were close to the cutoff for receiving praise).

[4] Social groups frequently penalize individuals for even minor degressions from accepted norms. Over time, many norms become internalized so that individuals adhere to them even when they act in private. Typically, the average is considered to be a salient norm or a focal point (see, for example, Bernheim, 1994; Sliwka, 2007; Fischer and Huddart, 2008). Chen et al. (2010) document that conformity concerns are an important motivator for contributions to an online movie rating community; Bergman and Hillz (2015) and Pope (2015) show similar effects for the performance of teachers after the publication of performance ratings.

[5] This literature uses settings in which the provision of feedback was either announced ex ante and/or was provided on an ongoing basis. Performance responses are therefore driven by both incentive effects (related to, for example, a concern for status/a good performance rank/self-image concerns) and ex post effects (related to, for example, conformity concerns). This paper, by comparison, minimizes incentive effects and isolates the ex post effects of performance feedback. Therefore, our results do not directly compare to those of the existing literature on feedback. Rather, they allow inference about the size and the pattern of the ex post effects that constitute a part of the overall effect sizes reported in the existing studies on relative performance feedback. A further difference between our study and the existing literature on performance feedback is that the latter does not compare the effectiveness of information to that of other interventions with an informational component.

[6] While conformity is one possible mechanism that can explain why low-performers exert extra effort in response to learning about their low performance rank, there are other (perhaps even more likely) explanations. These explanations include competitive preferences (e.g., Charness et al., 2013) and an aversion to falling behind or being below average (see, e.g., Kuziemko et al., 2014 for evidence on last-place aversion, Allen et al., 2016 on how reference-dependent preferences can lead to catching up in the case of marathon runners, and Fehr and Schmidt, 1999 for a formal model on fairness that can also rationalize such behavior). Common to all of these explanations is that individuals experience a disutility from being behind.

[7] The use of discretionary bonus pools is commonplace and these are often used for recognizing good performance (Bailey et al., 2011; Maas et al., 2012; George and Weimerskirch, 1994, p. 105). Also, budgets for recognition programs are typically sizable. According to a 2013 study conducted by WorldAtWork, budgets for recognition programs comprise on average 2 percent of the total payroll budget and 80 percent of companies that have a recognition program make use of informal recognition (spontaneous gestures of appreciation).