

SHORT-TERM BONUSES

Research that will appear later this year in the *Journal of Management* shows that multiple types of short-term bonuses can positively influence employee performance. The effects were substantial, showing that adding short-term bonuses based on individual productivity increased individual productivity by more than 5%. Further, removing the possibility for bonuses once they had been established, can lead to decreased performance.

Key Takeaways:

- Short-term bonuses, including cash, family meal vouchers, and verbal rewards each increased performance by over 5%.
- When these bonuses were removed, performance decreased for those who had received cash bonuses, but not for those receiving verbal rewards.
- The negative effect of removing short-term cash bonuses diminished when those cash bonuses were chosen by employees, rather than granted by default.

Using data collected in a high-tech semiconductor manufacturing plant over five weeks on workers whose productivity was individually based, researchers found that adding bonuses (cash, pizza meal voucher, verbal reward) led to increased performance of greater than 5%. Further, there was not a statistically significant difference between the cash and non-cash rewards. The research team then examined the

effect of removing these bonuses from those who had experienced productivity gains due to receiving the bonuses. In these cases, productivity decreased across all three bonuses, but the decrease was statistically significantly larger in the cash condition than it was in the verbal reward condition.

They also found more complex relationships among the three comparisons. Allowing employees to choose which bonus condition led to substantially more employees choosing the cash condition than the pizza voucher. Further, removing the cash bonus from those who had chosen it, led to less performance decreases than did removing the cash bonus from those who were assigned it. They also found that attendance increased when the incentive plan was introduced and this increased attendance lasted even after the bonuses were removed.

Their analysis was based on data collected over 5 weeks in an ongoing fabrication plant. The new bonuses were designed to examine how short-term bonuses could help achieve challenging production goals. The ages of those examined ranged from 24-57 years old, with tenure ranging from 1 month to 20.5 years.

Source: Bareket-Bojmel, L., Hochman, G., & Ariely, D. (2016). It's (not) all about the Jacks: Testing different types of short-term bonuses in the field. *Journal of Management*, In Press.

