

## **PRIZES AND AWARDS, INTERNATIONAL**

Awards such as orders, medals and decorations are a global phenomenon; they exist everywhere in society and in all times. They serve as signals to generally indicate socially desired behavior as well as motivators for individual persons. Awards in the form of orders, crosses, decorations, prizes, and titles, are non-material, but extrinsic incentives.

The realm of awards is quite vague. The semantics are unclear and the various types of awards are not well defined. These unclear distinctions are no accident, but an important feature of awards. The suppliers of awards have an incentive to differentiate awards at many different levels and to continually create new awards.

Awards are not just an indirect way of monetary compensation. There are major differences between awards and money, making it worthwhile to analyze 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;
- Accepting an award establishes a special relationship, in which the recipient owes (some measure of) loyalty to the donor. This is not true for monetary compensation;
- Due to their vague nature, awards are more adequate incentive instruments than monetary payments when the recipient's performance can only be vaguely determined;
- Awards are less likely to crowd out the intrinsic motivation of their recipients than monetary compensation.

- Awards are not taxed, while monetary income is. In countries with high marginal taxes it is therefore relatively more attractive to receive an untaxed award than to receive a highly taxed monetary compensation.

## **Awards are Ubiquitous**

It is well known that a flood of orders, medals and titles (such as “Hero of the Soviet Union” or “Hero of Socialist Labour”) were handed out in communist countries, for instance in the Soviet Union or the German Democratic Republic. Such behavior is typical for both right- and left-wing dictatorships. But awards also play a large role in republics and democracies. Awards are equally ubiquitous in monarchies as in staunch republics. In the French Republic, for instance, the *légion d’honneur* plays an important role, and that nation actually confers 3,000 awards annually, which is four times higher than Britain. In the United States, the president and Congress bestow medals, while at the same time Purple Hearts, Bronze Stars, and Silver Stars are handed out quite liberally, and at an increasing rate in the military service.

The shorter the time horizon of the politicians, the more they rely on awards, because the costs, in the form of award inflation, will only occur in the future. Before his resignation in 1976, the British prime minister, Harold Wilson, did great harm to the honors system by handing out a large number of awards to Labour supporters. When a regime fears for its survival, there is a great incentive to try to forestall this fate by using awards as incentives to supporters. Examples are the German Iron Cross, established in 1813, and highly esteemed up until the 20<sup>th</sup> century. But it lost much of its lustre when it was given out to 5,400,000 soldiers in World War One (WWI), in which 13.2 million German soldiers were engaged; on average, 40 percent of all soldiers received one. As some soldiers received Iron Crosses of several classes, historians

estimate that about 20 percent of German soldiers were decorated in this way. Similarly, in WWII, 5,000,000 Iron Crosses were awarded. In both Wars, the Germans were on the losing side. The war leaders were, quite early on, aware of the fact that their chance of winning the war was small and diminishing.

Governments and all kinds of nongovernmental organizations hand out awards in the civil and military sectors, in academia, in culture, in the media and in religion, as well as in sports. All around the world, officers are highly decorated. In the arts, in culture and in the media, prominent examples are the Academy Awards (Oscars), the Grammy Awards, the Brooker Prize, and the Pulitzer Prize in literature. Art institutions, such as museums, bestow titles, such as *benefactor* or *patron*, upon their supporters. In the field of sports, athletes are given the honor of being elected “Sports Personality of the Year” (e.g., by the BBC) and are admitted into Halls of Fame. Another example is the International Football Association’s bestowal of the “FIFA Centennial Order of Merit” upon Pelé (Edsen Arantes do Nascimento) and Franz Beckenbauer for being the best footballers of the 20<sup>th</sup> century. Religious organizations, such as the Catholic Church, award the titles Canon, Monsignore or Archbishop, and beatify and canonize distinguished persons, which can be considered a posthumous award. Academia also has an elaborate and extensive system of awards.

There is no comprehensive list of awards spanning the different types and levels of awards in the various spheres of society, countries and time periods. It is impossible to measure the usage of awards in a country from the supply side because there are hundreds of thousands, if not millions of institutions bestowing awards. The arguably best source providing information on the awards received by the most important personalities is the *International Who’s Who*, where they are asked to indicate their received honors, prizes, and awards. It is a work of reference

comprising a list of the most important personalities in over 200 countries. The persons included are, for example, every head of state, all directors of international organizations, heads of leading universities, CEOs of the Global 500 and Fortune 500 companies, prize winners of distinguished awards (such as the Nobel Prize and the Pulitzer Prize), important sports personalities, as well as prominent individuals from the film and television industry.

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 formally **bequezed** [Au: conferred?] by the Queen. However, today's republics also widely engage in this practice. Among those countries with the highest number of awards, many 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). Americans living in the United States receive a considerable number of awards, more than in France and Italy.

Judging from pictures appearing in the press of soldiers and officers having their chests covered with orders, decorations and medals, it could be thought that most awards are received by the military. Military decorations are handed out more liberally when there is no strong central command, but the various branches of the military are in competition with each other and can to some extent act on their own. In tandem with this expansion of different types of awards, the number bestowed also increases greatly. This is particularly visible in the United States. In the Revolutionary War, there was essentially one military force under General Washington's command. The Purple Heart was only awarded three times. In contrast, during WWII in one battle alone, at Iwo Jima, there were 28,686 casualties (of which 6,821 died), and each one received a Purple Heart. Today, the American forces are composed of the Army, the Navy and

the Air Force, and more recently of the Marines and the Coast Guard, each one having its own command, with a good measure of independence. The highest award of the US military, the Medal of Honor, was originally issued to members of the US Army. In 1947, the US Air Force began issuing its own version of the Medal of Honor, followed later by the US Navy and the Marines. There is also a US Coast Guard version.

However, awards are not mainly a military affair. Awards are handed out for activities in many other areas. This shows that the relevance and importance of awards is not limited to certain narrow fields or spheres in a society. Three areas comprise the largest share of the awards handed out in the 82 countries of the sample. The two major sectors are social welfare and academia, followed by culture.

The largest share of awards is bestowed to persons for activities that can be broadly summarized as belonging to the category of social welfare (37%). This category includes awards such as state orders and peace prizes. This large proportion of awards for social welfare can be attributed to the fact that these activities—while being socially desirable—are frequently not, or only inadequately, compensated in monetary terms. Often, monetary compensation could even be counterproductive as means of rewarding these kinds of activities. Hence, awards work better to motivate and reward persons active in these kinds of activities.

Academia has an elaborate and extensive system of awards: Universities hand out the titles honorary doctor or senator, or professional associations awarding a great number of medals and other honors. On average, almost one quarter of all awards (23%) are given to individuals in academia. Switzerland and Belgium lead with a share of two thirds of all awards going to individuals in academia. In six further countries (Turkey, the Netherlands, Germany, Australia,

and Nigeria) half or more of the awards go into the academic sector. Individuals in the scientific sector, the place of rational discourse, are thus quite happy to receive awards.

A significant, but clearly lower, share of awards (19%) is bestowed in the cultural sector. Similar arguments explain the intensive use of awards in this sector as in the case of social welfare. In addition, the cultural sector, which includes film, television, music and literature, is particularly skillful in using the media to promote its own importance. This is reflected in the great attention received by the award ceremonies, in particular, the Oscar and the Grammy Awards.

One may think that awards are rarely used in the corporate sector of a market economy. After all, employees in private corporations are used to see performance in terms of money, as reflected in the current importance attributed to pay-for-performance schemes adopted all over the world. However, already a casual observation of business practice suggests that awards and titles are very important. The countries with the highest number of business awards per individual comprise a broad variety of countries in terms of GDP per capita. The top 10 include some countries that are rich such as Canada, Singapore, the United States, Saudi Arabia, Sweden or Switzerland, but also some developing countries such as the Philippines and Turkey. It may be conjectured that the picture will change in the future. An increasing number of countries may well adopt the practice of honouring business people with awards thus imitating the economically particularly successful countries.

## **Features of Awards**

Awards as a global phenomenon have not received much attention in the literature, though several aspects important for the functioning of awards have been studied. One of these is status;

that is, relative positioning of an individual within a group, a topic that has received increasing attention by economists in recent years. Individuals are taken to have an innate desire to distinguish themselves from other individuals. People are more concerned with their relative rather than their absolute standing. Awards have the potential to change behavior when they have an impact on an individual's social distinction independent of their impact on present or future consumption.

Awards, however, are more than simply a mark of status. Awards also influence behavior by providing positive feedback and social recognition. Social recognition refers to social endorsement irrespective of changes in relative position, while relative position defines a person's status. Employers can use awards to signal positive intentions and thereby influence the effort of an agent. Awards are particularly important when monetary compensation do not work well, or not at all. This holds, in particular, when the task to be performed is difficult or impossible to specify *ex ante* or to monitor *ex post*. In this case, it is hard to make a monetary payment that is considered to be fair by the recipients. "Soft" incentives that endeavor to take a broader view of the agents' efforts then become more useful.

Awards share certain essential features that warrant their analysis as a general phenomenon. Among others, a typical feature of awards is that awards are given via a public ceremony and can be publicly displayed. Awards are handed out according to a broad set of criteria. Typically, the various performance dimensions and how these are weighed to determine the winner are not fully specified. Consider, for example, an award for exceptional customer service. It typically is not made explicit which specific behaviors count and to what extent. Rather, the criteria are deliberately left vague. This allows donors to avoid that employees only focus on the activities specified rather than on whatever would be best in the situation at hand

that may require an action that is not among the ones specified. This leads to another feature, namely the subjective element in determining the winner. Also, awards are not enforceable. While awards are typically handed out in a manner that makes the reasons for the decision on the particular recipient(s) transparent, non-recipients cannot claim an award by trying to establish that their performance was better. In many other countries state orders are, for instance, the only governmental acts besides presidential pardons that are not subject to administrative law. A further award characteristic is the tournament character and the fact that all awards serve as incentives, be it direct or indirect. Awards are direct incentives when they are announced *ex ante* to be granted for certain kinds of performances within a given period of time, such as the customer service award granted for the best customer service in the current year. Awards are indirect incentives when they foster motivation by improving the work environment, by changing norms, or by stimulating other individuals to engage in similar tasks by establishing that this kind of behavior is deemed desirable. Example for awards with indirect incentive effects are state orders handed out for exceptional civil courage, such as an act of life saving.

These considerations illustrate that awards are omnipresent in all spheres of life and that they perform important functions.

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*See also:* Academy Awards; Class; Elites; Nobel Prize; Secret Societies and Orders

### **FURTHER READINGS**

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