

Awards as Strategic Signals

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Abstract

This contribution uses signaling theory to analyze the widely observed phenomenon of award giving. Awards appear in various forms, ranging from the Employee of the Month title to prizes, decorations, orders, and other honors. The purpose of this article is to develop an understanding of the signals emitted when awards are given and accepted, and to highlight conditions under which signaling failures are likely to arise. We take a comparative approach, contrasting awards with other incentives, in particular with monetary compensation and bonuses. Our analysis helps inform management practice by presenting a systematic appraisal of the strategic signaling functions of awards. It proposes under which conditions awards tend to raise performance, and when monetary compensation proves to be superior.

Keywords

awards, motivation, performance, monetary incentives, signaling

The corporate sector is geared toward the maximization of financial profit. And yet, it is replete with honorific flattery and symbolic awards. The corporate entry halls are wallpapered with awards won by the respective companies, employees' offices are stacked with trophies, name plates on the doors meticulously document managers' titles, and on the way to the restroom we encounter vitrines sporting the awards given to cleaning staff. Awards also transcend the boundaries of the firm, with CEOs being decorated by states (e.g., with the National Medal of Technology in the United States) and the media (e.g., being celebrated as CEO of the Decade). There are so many different forms of awards that any effort to provide an accurate overview of them must almost certainly fail.

Notwithstanding the widespread use of honors, trophies, medals, prizes, titles, and other decorations in the corporate, public, and non-profit sectors, the theoretical and empirical research on awards is still in its beginnings. Some studies have looked at specific awards and their effects on performance empirically (Chan, Frey, Gallus, & Torgler, 2014; Gallus, 2014, 2016; Kosfeld & Neckermann, 2011; Kovács & Sharkey, 2014; Neckermann, Cueni, & Frey, 2014; Neckermann & Frey, 2013). Others consider the use of awards in society from the giver's side (Frey & Gallus, 2016), or in firms from an incentives or strategic management perspective (see Besley & Ghatak, 2008; Gallus & Frey, 2015, respectively). We want to discuss awards more broadly as a signaling strategy.

Signaling theory (Spence, 1973) is a most natural approach to the study of awards. After all, what *are* awards? Awards are signals of recognition and distinction that are celebrated in public. The publicity is a central feature distinguishing awards from other rewards, such as bonus pay and praise. Of course,

some awards come along with a considerable sum of money; but as we will argue, even awards that do not offer material benefits can be highly valued. We might go even further and say that such symbolic awards are particularly valuable signals; they are non-material and derive their value from their symbolic nature.

Awards transmit signals that transform the content and interpretation of information emitted by actors. In a signaling framework, as depicted in Figure 1, the signaler (a single manager, committee, or community) transmits a signal by offering awards instead of money for certain types of outstanding performance. The selected award recipient (a person or group) also emits specific signals by accepting and displaying, or disregarding and rejecting the award. The value to the recipient usually exceeds the costs that the giver incurs. This asymmetry in costs and benefits is a great advantage of awards over other signals, such as wage increases. The symbolic exchange between the award giver and recipient moreover emits signals relating to the non-recipients of awards (other employees), and to the outside signaling environment (potential future employees, employers, and others). We focus on the strategic signaling initiated by managers presenting awards to employees, but there are also cases where employees give awards to each other, or where entire

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Stage 1: Award is presented	
<p>Signaler <i>Has underlying quality, intent, and beliefs (about employees and tasks)</i></p> <ul style="list-style-type: none"> Manager Committee (group of managers and/or co-workers) Community (all employees) 	<p>Signal receivers <i>Observe and interpret signals</i></p> <p>Employees</p> <p>Award recipient <i>Chooses to accept or reject award</i></p> <ul style="list-style-type: none"> Employee Group of employees <p>Non-recipients</p> <p>Outside signaling environment</p> <ul style="list-style-type: none"> Potential future employees Potential future employers Others <ul style="list-style-type: none"> Stakeholders (e.g., investors, customers) Social networks (family and friends of employees) General public
Stage 2: Award is accepted or rejected	
<p>Signaler <i>Has underlying quality, intent, and beliefs (about employer)</i></p> <ul style="list-style-type: none"> Award recipient 	<p>Receivers <i>Observe and interpret signals</i></p> <ul style="list-style-type: none"> Manager Other employees Outside signaling environment

Figure 1. Awards as signals within firms.
 Note. This framework is derived from the basic signaling timeline in Connelly, Certo, Ireland, and Reutzel (2011), Figure 2.

organizations receive awards from outside bodies such as the media (see, for example, Hendricks & Singhal, 1996).

We will discuss under which conditions either awards or monetary rewards are superior and when they can, and should, be combined to reach a particular outcome in terms of the behavior induced. Where signaling failures are likely to arise, other rewards such as praise or monetary payments are superior to awards. We argue that important new insights are gained when awards are analyzed from a signaling point of view. Signaling theory today spans various disciplines, extending from management to economics, sociology, political science, anthropology, and biology; Gambetta (2009) provides an excellent survey of the different strands of the literature. Connelly et al. (2011) review the management literature in which signaling theory occupies an important position, including strategic management and human resource management. We apply signaling theory so as to gain a better understanding of the widespread and longstanding use of awards.

Awards as Signals

We differentiate between two types of awards because they vastly differ in their role and strength as signals (see Figure 2; Gallus & Frey, 2015).

Confirmatory Awards

Confirmatory awards have clearly defined performance criteria (e.g., points to be earned) upon which receipt of the award is made conditional. A case in point is the “Best Salesperson of the Month” award, which is contingent on the monthly sales volume achieved by individual employees. Confirmatory awards leave little leeway for the manager to emit signals. They mainly serve the award recipients to signal their qualities to others inside and outside of the organization, such as colleagues and potential future employers (Stage 2 in Figure 1).

Awards of this type tend to be bestowed at regular intervals, and are to some extent automated as the award is normally given to the previous period’s best performer. However, the award givers may change the selection criteria, which introduces a measure of discretion. Confirmatory awards are an addendum to the regular incentives (e.g., bonuses), and employees actively compete for them. By adding an award to the monetary incentives, high performers are made more visible, and their status is elevated. However, as the award will normally be up for grabs in the following period, winners will have to compete again to uphold their status.

Confirmatory awards	Discretionary awards
(e.g., salesperson of the month)	(e.g., distinction for commitment)
Explicit criteria	Open criteria
Regular intervals	Open intervals
Ex ante (announced)	Ex post (surprise)
By adding prize to money: increase visibility of high-performers → Automatism	By adding money to prize: signal seriousness, establish prize among other prizes → Personal evaluation
Low ← Signaling value for Principal → High	

Figure 2. Award types.

Discretionary Awards

Discretionary awards give the manager more freedom to decide when and upon whom they are bestowed. “Outstanding Employee” awards are just one example of this widely used form of recognition. Discretionary awards can be given, for instance, for unexpected services of an employee (such as helping colleagues), which would not be honored in the standard incentive and compensation scheme, partly because these activities can be difficult or impossible to measure. These awards tend to be bestowed ex post to the behavior observed, often to the surprise of the winner. They do not state explicitly any expectations or requirements to be fulfilled by the employee in the future.

Discretionary awards allow the manager to emit specific signals about his or her intent and quality. They give the manager more leeway and therefore transmit information that signal receivers can directly attribute to the manager. The greater discretion enjoyed moreover raises the signal costs, which are central to signaling theory (Gambetta, 2009; Riley, 2001) as they often help separate honest signalers from mimics who only pretend to possess the quality associated with the signal (Zahavi, 1975, introduced this in biology as the “handicap principle”). Honest signals, as they are frequently called in management studies, denote those signals that “would be difficult and uneconomical for someone to fake if they did not possess a high level of quality in the area in question” (Durcikova & Gray, 2009, p. 84). Besides the monetary prize sometimes added to awards, two main sources of costs can be identified. Both tend to be higher for discretionary awards than for confirmatory awards.

First, the more time and effort the manager is seen to spend on the selection and celebration of the award recipients, the more costly the award and, ceteris paribus, the stronger the signal sent. Confirmatory awards are more automated and tend to reflect information (i.e., the ranking of employees) already known to signal receivers. Discretionary awards, by contrast, require the manager to invest time in the selection of candidates and winners. The second source of costs is potential in nature and consists in the risk of a signaling failure (e.g., the award being given to an undeserving employee or

being publicly rejected by a recipient), the discussion of which will round up the article. As discretionary awards involve a higher degree of leeway in the selection of candidates, any failure will be attributed to the manager and deteriorate the latter’s reputation, as well as that of the award. The higher the risk of a signaling failure and the resulting reputational damage, the more time and effort the manager will invest in selecting winners, and hence, the higher the signal costs of discretionary awards will be. Given these higher immaterial signaling costs, the manager may more easily abstain from using prize money with discretionary awards. Especially when linked to vague criteria, high sums of money may even propel signaling failures, for example, due to envy and accusations of favoritism.

Managers should consider instituting discretionary awards with broad criteria, which they may employ to signal their own qualities and intents, and to recognize behavior not reflected in the standard performance criteria, such as helpfulness. By contenting themselves with confirmatory award schemes, managers forego important advantages of awards. We feel that this point has so far not received sufficient attention. In the remainder of this article, we will therefore focus on the case of discretionary awards to highlight their distinctive advantages, as well as the pitfalls award givers should keep in mind when using them.

Signals Emitted by the Manager

Table 1 depicts three complementary channels through which managers may use awards as signals.

All three channels contribute to our understanding of why managers bestow awards, that is, what the award’s strategic signaling function is. Bestowing awards—if well orchestrated—attracts attention to, and benefits, the organization and the manager. A manager who uses awards within the firm emits signals toward employees and other (potential) stakeholders (Figure. 1). Various studies focus on the signals managers send toward parties other than the inner circle of employees, such as potential investors and shareholders (e.g., Carter, 2006; Goranova, Alessandri, Brandes, &

Table 1. Three Major Channels Used by Managers When Bestowing Awards.

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| 1. | Indicating the quality by (a) showing skill and (b) establishing authority, producing favorable changes in the beliefs and behavior of signal receivers. |
| 2. | Expressing interest in bonding, therewith strengthening the award recipient's loyalty. |
| 3. | Offering trust toward award recipients by granting them additional autonomy. |

Dharwadkar, 2007; Ross, 1977). We mainly focus on current and future employees as signal receivers

Signals of Quality

Information problems may arise with respect to either the quality or the intent of the signaler (Stiglitz, 2000, 2001). When a manager bestows awards upon employees, the awards transmit signals that will cause award recipients, non-recipients, and the wider signaling environment to draw inferences about both the manager's quality and intentions. Most studies deal either with quality or with intention (see Connelly et al., 2011). The study of awards allows us to consider signals that concurrently confer information about both quality and intent. There are two major mechanisms through which managers using awards emit signals about their quality.

First, by bestowing awards to honor outstanding behavior that is often not recognized by incentive schemes, managers signal their interpersonal skills. These skills consist of an ability and willingness to assess the effort and performance of employees (attentiveness), and to adequately recognize them (appreciativeness). Managers can further reinforce this quality signal by the type of behavior they choose to award. Giving awards for prosocial behavior, such as helping colleagues, signals the managers' attentiveness to interpersonal relations. Managers who are identified as being attentive, appreciative, and supportive of a positive interpersonal work environment are more likely able to incite employees' compassion. As the work by Atkins and Parker (2012) emphasizes, compassion can be vital for organizations. In a study modeling manager-employee relationships, Dur (2009) shows that managers who offer low wages to signal that they instead devote attention to employees can better induce employees to stay at the firm and work hard than managers who pay high wages. The basic assumption is that employees care more for their manager when they are convinced that their manager cares for them.

Second, managers signal their standing in the organizational hierarchy when bestowing awards. They show that they are in a position to confer prestige (Anand & Watson, 2004). In contrast to gift giving (see, for example, Gneezy & List, 2006), awards are based on the existing status hierarchy,

which they reinforce. The award recipient cannot reciprocate the signal by offering an award to the principal, which would be possible in gift giving.

The two signals of quality (interpersonal skills, authoritativeness) differ substantially from one another. Either one, when emitted on its own, could be detrimental to the signaler (e.g., a manager perceived as a friend without authority or an authoritative despot without compassion). However, when combined, they can be of strategic value for the firm. Monetary rewards could, in principle, be used to signal authoritativeness, albeit not of a moral sort. They are much less suitable for signaling the possession of interpersonal skills and might in fact even signal the opposite, for instance, when used to pay someone for having helped a colleague.

By using awards, managers send signals about their own qualities, thus influencing the perception of employees and the wider public (e.g., potential future employees and customers). Managers can leverage awards to induce compassion on the part of their employees, and concurrently reaffirm their authority within the organizational hierarchy.

Signals of Intent in Bonding

Another important reason why managers invest time in the bestowal of awards is that it allows them to signal their own intent, namely, their willingness to enter a mutual bond of loyalty with the award recipient.

Signals about intent can also be encountered in other organizational contexts, such as when entrepreneurs deliberately incur costs by approaching a business angel, and with that signal their willingness to exert effort and build up a viable firm (Elitzur & Gavious, 2003). Arthurs, Busenitz, Hoskisson, and Johnson (2009) directly combine signaling theory with bonding, albeit in a different thematic context; namely, focusing on the length of the lockup period in a firm's initial public offering venture. Somewhat closer to our approach, Suazo, Martínez, and Sandoval (2009) use signaling theory to analyze the impact of human resource practices, such as performance appraisal or compensation, on the employee's psychological contract. In particular, and conforming to our argument, Suazo and coauthors (2009) show that "positive [performance] feedback from supervisors may signal the creation of a psychological contract with a belief in long-term employment (e.g., a relational psychological contract)" (p. 161). This can, in turn, shift the focus to an emotional rather than purely economic level, which benefits the organization as it promotes compassion and interconnectedness among employees (Atkins & Parker, 2012).

We argue that presenting an award to an employee signals the manager's willingness to enter a special bond of loyalty with the recipient. Two conditions are important for the award to be perceived as an authentic signal: First, the number of awards the manager bestows has to be limited as the quantity of awards is negatively correlated with the manager's

perceived intent of commitment and the award's value as a status good (Gavrila, Caulkins, Feichtinger, Tragler, & Hartl, 2005). A mimic wanting to fake the signal of loyalty would rather bestow more awards in an effort to bond with multiple employees, without caring about a particular one. Second, the bestowal has to be consistent with the other signals the manager emits (e.g., the award should not accompany a salary cut). Upon acceptance by the award recipient (Stage 2 in Figure 1), the award signals to others that the two parties share similar goals and are loyal to each other; or, at the least, that they hold each other in regard.

Again drawing a comparison to monetary rewards, it seems that the latter are not suited to emit a signal of loyalty between the giver and the recipient. In the context of firms, bonuses may often not be talked about with other employees. This opaqueness is reinforced by social norms, which widely inhibit talking about one's monetary achievements (Webley & Wilson, 1989). It is also not considered immoral to work for somebody with different preferences. What matters is that one receives sufficient money to perform the task.

Managers may use awards to establish ties of loyalty with valuable employees. They can thus shift the relationship from a purely business-oriented interaction to a social one, based on shared values, goals, and mutual respect.

Signals of Beliefs

The choice of how to compensate an employee for outstanding behavior signals the manager's beliefs about the employee's type (e.g., ability, motivation) and the distribution of employees in the organization (Sliwka, 2007). It also signals the manager's beliefs of how difficult or attractive a task is (Bénabou & Tirole, 2003). The manager has the choice to offer high-powered incentives in the form of money or other material benefits. Alternatively, the manager can grant autonomy and trust in the employee's motivation to exert effort, in which case awards are better suited. The decision to refrain from using high-powered incentives (control) and instead use awards to highlight outstanding examples of, say, helpfulness and collegiality, can reveal the manager's beliefs in the prevalence of intrinsically motivated and/or fair employees.

For employees, positive recognition from awards can support their intrinsic motivation if the awards are not perceived as controlling (e.g., Deci, 1975; see Frey & Jegen, 2001 for a survey). Awards that signal the managers' trust and confidence in the employees' future performance can foster the latter's self-esteem (see Liu, Hui, Lee, & Chen, 2013 on organization-based self-esteem). If effectively used, the manager positively recognizes the award recipients' intrinsic motivation (e.g., for prosocial behavior) and may thereby strengthen that form of motivation.

Third parties, who tend to have less information about employees' types than the manager, will infer from the

manager's choice to trust that there is a sufficient share of "well-inclined" employees. By increasing the salience of cases of prosocial behavior, the awards further strengthen this perception of a prosocial norm. Conformists who are willing to cooperate if enough others do so, too, will be encouraged to cooperate.

Moreover, these signals of trust (versus control) will influence the self-selection of employees into and out of the organization, thus altering the distribution of types (Sliwka, 2007). Managers who use awards to compensate prosocial behaviors in symbolic terms can encourage employees in their organization to emulate such behavior by showing them that they are not the only ones who behave prosocially. By doing so, managers stand a chance to influence who self-selects into their organization, attracting more mission-oriented, intrinsically motivated types rather than employees who care about their personal enrichment. In particular if they don't offer significant material benefits, awards thus become a welcome screening device. This can be crucial in contexts of performance ambiguity, where it is difficult or impossible to observe effort and behavior. Using high-powered incentives under these circumstances risks inducing multitasking (the concentration of efforts on compensated tasks at the expense of less measurable, uncompensated tasks, such as helpfulness), strategic behavior, and even gaming (e.g., Baker, 1992; Holmström & Milgrom, 1991).

Influence activities can of course also take place in the case of award bestowals. Yet, we expect them to be much less frequent than in the case of monetary incentives, in particular if the awards do not provide material benefits. Under these conditions, source dependence (Loewenstein & Issacharoff, 1994) influences to a great extent the valuation of the award. Individuals will intrinsically value the award much less or not at all if they do not perceive they have deserved it. If employees foresee this, they should refrain from trying to obtain awards illegitimately.

In many contexts, awards allow the manager to leave the targeted performance sufficiently vague (English, 2005). They can, for instance, be given for helpfulness with no need to exactly define, measure, and enumerate the employee's single deeds. We recognize that helpfulness could in principle also be compensated for by paying employees based on subjective measures of performance; yet, as mentioned before, giving money for such behavior is most likely to run counter to the social norms. It also risks crowding out employees' image motivation (Gneezy, Meier, & Rey-Biel, 2011). Thus, under opaque conditions where important forms of behavior cannot be contracted, awards still allow the manager to steer by signaling what behavior is cherished. The manager can, for instance, give "Extra Mile Awards" to employees who have consistently gone beyond the call of duty.

By using symbolic awards instead of high-powered incentives, managers signal their belief in the prevalence of fair employees, who are willing to exert effort and help their

colleagues even if this does not yield private monetary benefits. Non-awarded employees and workers on the labor market can infer from this signal that there is a norm of pro-social behavior in the organization. This is likely to lead conformists inside the organization to cooperate, and it may attract workers with similar social preferences to join the organization. Moreover, awards can be used to highlight specific types of behavior and work attitudes that are desired by management, without requiring a clear-cut definition and measurement of performance. This freedom from control is essential for intrinsic motivation. Managers should use awards in particular where intrinsic motivation is important and risks being crowded out by other extrinsic incentives, such as money (Frey & Osterloh, 2005).

Signaling Failures

The signals emitted by the manager when presenting awards do not always lead to the desired results. This can be the case because the signal strength is insufficient or because the signal has adverse effects.

Insufficient Signal Strength

Too many awards. When the manager issues an increasingly large number of awards, the latter start losing their value. Grade inflation and “inflation of titles” (Finer, 1997, p. 639) are well-known phenomena. Rewards, generally, can suffer a loss in value for two reasons. Either there are too many similar rewards in circulation in a particular community (e.g., a firm, an organization, a country), or a single employee has already received too many rewards, and thus values additional ones less and less. The first reason is relevant with respect to both awards and money. The second reason, the decreasing marginal utility for the employee, is more likely to hold in the case of monetary rewards, but not so much with respect to awards. In effect, there seems to be almost no limit to the number of awards an individual values, and the marginal utility gained by additional awards seems to decrease less than in the case of money. There are many different awards bestowed by a multitude of award givers. An award given by the employee’s direct supervisor differs drastically from one given by the company’s top management in the signals emitted. One that was in large part decided upon by coworkers differs from an award given by managers. These awards carry a distinct value. While the immediate supervisor or direct coworkers are in a better position to judge less observable performance dimensions, the top management team represents the utmost instance of authority in the company. Moreover, persons who have received an award repeatedly are frequently elevated into an even more exclusive category of superstars (e.g., Marie Curie who was awarded two Nobel Prizes).

The single manager can also actively counteract award inflation within the organization, for instance by establishing

new awards that are given for new types of behavior. To counteract an inflation of bonuses and other monetary rewards is more difficult—a major reason being that money is, by definition, one-dimensional. It is easier for the recipients to perceive the inflation, which reduces or even destroys the incentive function of monetary rewards. The marginal value of money for a single person decreases the richer he or she is. Once a bonus is given for activities that are part of the employee’s regular tasks, the activities will no longer be performed if the bonus is not forthcoming. More effort can be induced by increases in the bonus or prize money, but even this might not lead to superior performance due to, for instance, choking under pressure or strategic behavior (Ariely, Gneezy, Loewenstein, & Mazar, 2009; Bracha & Fershtman, 2013).

Managers need to be aware that an award loses in value when used to reward a large number of employees. There are, however, possibilities to mitigate the inflationary effect; for example, creating clearly differentiated honors or giving awards to groups.

Signal inconsistency. The signaling effect of an award can be disturbed by other signals that the manager emits. An instance of such signal inconsistency (Gao, Darroch, Mather, & MacGregor, 2008) can arise if the manager behaves contrary to the values upheld by the award, thus sending contradictory signals. If the manager is, for instance, generally disregarding of others but bestows an award for helpfulness, the award’s signal is ineffective. The prize money attached to some awards can also send confounding signals. The amount may be perceived as both too high, thus overriding the honorific signal of the award, or too low, thereby challenging the seriousness of the award. Not attaching any money to the award prevents putting an exact value on it and making the award comparable to other rewards, but it may also be perceived as stinginess. This is more likely to be the case when an award is introduced while some other change disadvantageous to the employee is being made (e.g., wage cuts). It is also more likely to affect managers in organizations with high profits and liquidity, who will have to accompany an award with more money than managers of income-constrained organizations.

Monetary incentives are subject to similar risks. If they are relatively high, they may send counterproductive signals, for example, causing the employee to infer that the task must be uninteresting (Bénabou & Tirole, 2003). Relatively low monetary pay, however, risks signaling the manager’s low appreciation for the task being executed.

The manager has to make use of awards in a diligent manner to convey the signal as intended. The consistency of signals concerns the manager’s own behavior as well as the relationship between the award and other rewards. By placing relatively high demands on the manager, the signals emitted by an award are made more difficult for mimics to fake.

Adverse Signaling Effects

Awarding undeserving employees. A further instance of signaling failure arises when the award is given to undeserving employees. Two cases need to be distinguished in this respect: The manager can award somebody being aware that the award recipient is actually undeserving of this honor (e.g., for strategic reasons), or the manager can unknowingly award an undeserving person. This can either happen because the employee mimics the desirable behavior, “cheating” by producing desirable signals of quality to be selected for the award (Johnstone & Grafen, 1993), or because the employee later behaves in an undesirable manner.

Let us first consider the latter case, which concerns the employee’s future behavior. Three scenarios can be distinguished. First, awards often entail a self-fulfilling prophecy, either by causing the employee to behave in the desired manner (e.g., being more productive thanks to higher self-confidence) or by favorably impacting others’ perceptions of the employee (akin to the status or “Matthew effect,” the phenomenon that success breeds success). In this case, there will not be a signaling failure. Second, the recipient’s behavior can revert back to normal (regression to the mean), for instance because the employee just happened to perform well previously. In this scenario, the award’s value might be reduced but most likely not by much. However, there is a third scenario that can cause severe reputational damage for all the parties involved in the award bestowal. When awards overly heighten the expectations and awareness of the recipients’ performance, even a negligible subsequent slip can lead to outrage and backlash. This scenario is akin to firms facing increased media scrutiny because of their superior corporate social responsibility record (Luo, Meier, & Oberholzer-Gee, 2012).

When an award goes to an employee known to be disloyal or to be pursuing incompatible activities, the prestige of the giver and the award is hampered. The award bestowed then sends a counterproductive signal. Erroneously honoring someone who turns out to be undeserving is less grave for the value of the award, but it still challenges the credibility of the award and the manager issuing it. Employees’ trust in the award giver is crucial for the award’s value, in particular in the absence of material benefits. A sorting equilibrium induced by the award would imply that the award serves “honest” employees to signal their quality, helping to distinguish them from mimics. Where the award’s restriction to worthy employees is questioned, the award loses in value. However, it should be noted that most signals are in fact only semi-sorting. As stated by Gambetta (2009), fully mimic-proof signals are rarely encountered.

Money has the potential advantage that it is usually given in a continuous way. When it is revealed that the behavior of the recipient is undesirable, the flow of payments can be discontinued. The previous transfers of money have established no bond between the manager and the employee.

When information about employees’ quality and intent is severely restricted, managers should consider using other means of showing recognition, which are less public and can be discontinued more readily (e.g., money, personal praise).

Award rejections. When an award is offered to someone who publicly refuses to receive it, this sends a strong signal that is unfavorable to the manager. It reduces the value of the award as it questions its desirability. The more widely known the refusal of an award is, the greater the damage to the reputation of the award, its giver, and past recipients. However, this holds only if it was the candidate’s decision to reject the award. This was the case when Thomas Piketty refused to accept the otherwise highly prestigious “Légion d’honneur” in early 2015. When it is a third body forbidding acceptance of the award, the effect on the award’s reputation may even be favorable because its importance is underlined and the attention it receives is heightened. This occurred for instance when the Russian authorities ordered Boris Pasternak to decline the 1958 Nobel Prize for Literature.

In an effort to prevent potential refusals by employees, many award givers ask future recipients whether they would be willing to accept the honor. Where it is not possible to previously assure acceptance of the award, the manager should resort to more gradual and less official signals of appreciation, such as personal praise. If an employee’s attitude toward management and the organization as a whole cannot be estimated with a sufficient degree of certainty and a rejection of the award seems likely, managers should use alternative rewards.

Negative effects on non-recipients. By bestowing awards on only a select group of employees, the manager runs the risk of affronting those who are not awarded. Social comparisons play a large role in organizations and society (see, e.g., Clark, Masclet, & Villeval, 2010 on the relative income effect). The danger of negative effects on non-recipient third parties is particularly high in small, clearly delineated, and homogeneous groups of employees. Where the reference group is established and interpersonal comparisons are dominant, non-recipients can perceive the award as a signal of them not being meritorious or as a signal of favoritism. Negative emotions, such as jealousy, and destructive behavior, such as sabotage, may result.

However, such negative effects on third parties can be counteracted. The manager can highlight the representative character of the award recipient, for instance when awarding someone for exceptional social engagement. Our research in the non-profit sector suggests that the winners are often presented as representatives of a larger group of employees. This contributes to the establishment of role models. The manager can also point out the possibility of future awards, and thus more directly induce others to emulate the award recipient. Integrating many employees in the selection of the

awardees is another helpful recourse; it improves the quality of the decision making and perceptions of procedural fairness. Giving the award to persons outside the organization is yet another means of reducing the risk of negative externalities on non-recipients.

Managers of small groups with well-defined membership boundaries have to be particularly aware of the risk that other group members might perceive the award as a signal of them not being meritorious or as a signal of favoritism. Several possibilities to alleviate this risk exist, for instance, tying awards to tenure and celebrating jubilees. Renouncing the use of prize money further reduces the risk of a signaling failure. Alternatively, managers may consider intensifying the use of personal praise.

Implications

There are a number of practical implications of the research on awards that are of interest for managers using or wanting to use awards (see also Gallus & Frey, 2015). We focus on three such implications.

First, awards are no substitute for money where money is already in use (i.e., in the private sector, unlike the voluntary sector). They are in most cases complements to monetary pay. But managers can use awards to strengthen an aspect of work which tends to be disregarded when rewarding employees just by using money. Less measurable activities, such as organizational citizenship behaviors, can be recognized with awards. Managers can emit signals that increase the motivation of employees and attract similarly motivated workers to the firm. Awards can thus fulfill a screening function that helps mitigate adverse selection problems, in particular in contexts of performance ambiguity, where employees' intrinsic motivation is crucial. This action may reduce employee turnover and hence help save costs.

Second, managers frequently use confirmatory awards that mirror the already established performance hierarchy, which is often reflected in relative performance pay. In using these highly automated awards, they forego important opportunities. In contrast, discretionary awards can be used to honor less well observable dimensions of behavior, such as prosocial behavior. These awards allow managers to signal their own qualities (attentiveness and authority), intents (to support the employee), and beliefs (that a large share of employees are intrinsically and/or prosocially motivated). While confirmatory awards risk inducing excessive competition and envy, in particular where they are accompanied by a substantial monetary sum, discretionary awards can improve the organizational culture. They provide a means to celebrate and encourage prosocial behaviors; they also facilitate the formation of teams among similarly prosocially motivated employees (qualities that would otherwise be difficult to observe). Giving these awards after the behavior

was observed can moreover reduce the likelihood of motivation crowding-out.

Third, managers must be aware that these benefits do not come without costs or risks. Major sources of signaling failures are an excessive use of awards leading to award inflation; signal inconsistency; the awarding of undeserving employees; award rejections; and negative effects on non-recipients. Mitigating these risks requires both, a careful design of the award scheme and effort on the part of managers. Although awards can be cost free in monetary terms, they do require that management invest effort to seriously express recognition and positively impact non-recipients' motivation and behavior.

Conclusion

Awards send a signal about the quality, intent, and beliefs of the manager who bestows them. By using awards, the manager circumvents important limitations posed by monetary incentives. Even in situations where the desired tasks are vague and cannot be contracted *ex ante*, the manager maintains the ability to influence the behavior of the recipient and—importantly—of future candidates and the general public, while reducing the risk of multitasking by employees. Whereas money can crowd out intrinsic motivation, awards may allow the manager to strengthen it. In comparison with money, awards can also have a more sustainable effect on behavior, particularly because their marginal utility decreases at a slower pace than does the marginal utility of monetary rewards. The recipients may also be induced to exert effort after receiving the award so as to show that they have deserved it. Such long-term effects are unlikely to occur once monetary payments are discontinued.

Our discussion of awards does not specifically consider the many different types of awards and their intended purposes. Future research should take such differences into account. It should consider how managers have to build the portfolio of rewards they use (feedback, awards, monetary incentives) to send consistent signals and maximize the aggregate effectiveness of the recognition scheme. What is the optimal rate of signaling to create momentum with awards and reinforce the message they are sending without, however, risking award inflation?

The role that the identity of award givers plays is another unexplored issue. How do the signals sent in award bestowals differ depending on whether the giver is an individual or a group, a manager or a group of employees? We build up our argument in a signaling framework, which considers the signals emitted by the manager when bestowing awards on employees. Other groups affected by the signaling process are the non-recipients and the outside signaling environment. We have discussed some of the signals sent to non-recipients, but much more research is needed to better understand how awards can generate positive behavior change on the part of

non-awarded employees. Regarding the outside signaling environment, the question of how the signals of employee awards can be coded so that they do not help competitors poach away top talent is crucial. Due to their public and relative nature, the signals emitted by awards are special and often substantially different from those linked to monetary incentives. Much could be gained by research that comparatively studies awards and monetary incentives in the field, to help us understand when they are substitutes, and when they should be used as complements.

The latest financial and economic crisis and the excesses in monetary incentives in the form of bonuses should embolden us to seriously consider alternative rewards. We suggest that awards as a form of non-monetary incentives present a promising avenue.

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