

## Memo

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**To:** Rhonda Murr  
**From:** Katie Bowers  
**CC:** Jane Ellery  
**Date:** 5/22/14

**Re:** Financial Incentives & Extrinsic Rewards

When employees reach a plateau of performance and production, incentives usually are the answer to get those employees healthy and engaged again. StayWell views employee health programs as an important part of building a high-performance workforce. To capitalize on the potential market advantage that healthier employees can provide, corporate leaders should view the use of incentives in the context of a range of promising investments in employee health (Terry & Anderson, 2011). However, before deciding to use incentives employers should understand the real advantages and disadvantages of using them.

Research has demonstrated that financial incentives increase participation rates in wellness programs. The rate of participation increases with the amount of the incentive. For example, a survey showed that an employer who provides a \$100 incentive to employees for completing a health risk appraisal experiences a 15-percent increase in participation, while an employer who provides a \$600 incentive experiences a nearly 100-percent increase in participation (Nyce, 2010). If the goal of the employer is to increase employee participation and their knowledge of health and wellbeing, then financial incentives and extrinsic rewards will be more effective than no incentives. Using the right amount of extrinsic rewards and financial incentives will effectively motivate employees to sign up for wellness programs.

However, employees can regard the financial incentives and extrinsic rewards as the cause for their behavior, removing the need to own their behavior. "The evidence on using financial incentives as rewards for behavior change demonstrates that, while

incentives provide external motivation that can initiate attempts to change, they may also decrease the intrinsic motivation required for changes to be sustained” (Ryan & Deci, 2000; Seifert, Chapman, Hart, & Perez, 2012). In fact, rewards can backfire, so that we are less likely to choose to repeat behaviors that were supported by incentives. Therefore, using financial incentives and extrinsic rewards to reward outcomes can be counterproductive for promoting long-term behavior change in employees. Employers should seize every chance to create a workplace culture that encourages healthy behaviors, not one that encourages obtaining rewards or money.

Financially, it is difficult to maintain the payment of incentives because employees will expect more cash, gift cards, etc. for the same behavior (T.W. an NBG). The amount paid out or offered to employees will diminish in value. Not only will this cost the company more money in the long run, but it sends employees the wrong message about why they need to participate in these wellness programs in the first place. Instead of expecting to be offered financial incentives and extrinsic rewards, they should be focusing on the health benefits they will potentially receive from participating. Even though financial incentives and extrinsic rewards will increase initial participation it might be at the expense of true engagement and long-term behavior change.

Employers can also incentivize employee outcomes during a wellness program. While this seems to be fair and make sense because money will only be spent for those who actually achieve a health standard associated with better health and lower health care costs, employers may find themselves battling with discrimination or fairness problems. Some would argue that employees who choose not to engage in wellness programs should be responsible for the additional cost of their unhealthy choice (O’ Donnell, 2010). However, “Lower-income individuals will face more burden in paying for things that might help them earn rewards, such as healthier foods, drugs that lower cholesterol, or babysitting services that facilitate trips to the gym or participation in health-related programs. Higher-income individuals face higher opportunity costs when they participate in time-intensive activities such as exercise” (Madison, Volpp, & Halpern, 2011). Therefore, from an ethical standpoint, an employer should use outcome-based incentives with caution and familiarize themselves with the laws and regulations of these types of incentives.

Clearly, incentive design is important when implementing them into the workplace. Financial incentives are effective in the short run and middle run, but in the long run employees usually do not sustain the desired behavior change. Employees’ intrinsic desire is diminished, creating a workplace of diminished performance, crushed creativity, low accounts of good behavior, encourage

cheating, shortcuts, and unethical behavior, and short-term thinking (Pink, 2009). If financial incentives must be used in a workplace, tailoring them to specific employee behaviors rather than outcomes or initial participation has the added benefit of providing clear guidance to employees about the steps they need to take to earn the incentive. Design incentives that are meaningful and provide employees with a sense of purpose. The best option is to assess the workplace culture and create a culture that encourages healthy behaviors, one that drives the employees' intrinsic desire to change the right way. Otherwise the money spent on extrinsic rewards and financial incentives will be a waste of money that could be better used for improving employee health.

## References

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