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Essays in Honour of José Casas Pardo

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NEW THINKING IN POLITICAL ECONOMY

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17. Awards play an important role

Bruno S. Frey and Susanne Neckermann

1. THE NATURE OF AWARDS

Awards in the form of orders, decorations, prizes, and titles, are predominantly non-material, but extrinsic incentives. They thus differ from both intrinsic incentives and extrinsic incentives in the form of money. Awards have existed in all centuries, and are used in all countries and in all areas of society, including the private sector of the economy.

There are major differences between awards and monetary compensation:

- The material costs of awards, consisting of a certificate 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 our view, these substantial differences make it worthwhile to analyze awards as a separate phenomenon. Nevertheless, economists have traditionally focused on monetary compensation and have largely disregarded awards.[1] Major reasons for this neglect may be:

- Awards may be considered to be *less efficient* incentives than monetary compensation, because they are not fungible and are difficult to apply marginally. Hence, the use of awards presents an error by the award giver that should be eliminated by the market over time.

- Awards may be the *result* of high motivation and success and not a contributing *cause*. While awards are sometimes bestowed on already famous persons to associate that person with the award-giving organization, the majority of awards do serve as incentives either directly or indirectly. Awards are direct incentives, when they are known to be handed out for a particular kind of effort, e.g. an award for best customer service in the next year. Awards serve as indirect incentives when they create role models.
- Awards may be thought to motivate only insofar as they lead to *future* material or immaterial *benefits*. Their impact on behavior can then be studied directly. Ginsburgh and van Ours (2003), for instance, show that winning the Queen Elizabeth musical competition, the best-known international competition for piano (and violin), significantly increases subsequent market performance of the artist. However, Huberman et al. (2004) demonstrate that people value status independently of any monetary consequence; they are even willing to incur material costs to obtain it.
- Economists may shy away from the study of awards because of serious data limitations. To our knowledge, there is no comprehensive list of awards spanning the different types and levels of awards in the various spheres of society (government, the arts, culture, media, sports, religion, academia, not-for- profits and for-profit enterprises), countries and time periods. Only partial, spotty and inconsistent evidence is available from scattered sources. This applies in particular to the many awards given by private institutions, such as non-profit organizations, clubs and firms. Orders given by monarchs or governments are somewhat better documented. In general, it seems to be impossible to measure the usage of awards from the supply side. There are hundreds of thousands, if not millions (and moreover a constantly changing set), of institutions bestowing awards in the various countries.

This chapter endeavours to empirically document the importance of awards in modern societies. Due to the serious data limitations addressed above, we construct our own data set. We believe that the best source of information on the awards received by an individual is the *International Who's Who (IWW)* by Neal (2006), which covers the most important personalities in each of the 212 countries included in the book. Entrants are asked to indicate the honors and awards they received. This enables us to challenge some popular – but as we shall show mistaken – notions about awards.

The next section presents five widely held beliefs about awards, and discusses their validity using the unique data compiled on the basis of the *International Who's Who*. The concluding section argues that it is important for economists to study awards.

2. HOW CORRECT ARE BELIEFS ABOUT AWARDS?

Five generally held notions about awards are challenged and analyzed using the data constructed on the basis of the *International Who's Who*. This data source provides information on the number and kinds of awards each person received as well as on person-specific characteristics such as nationality, job, age, and international mobility. A sub-sample of 82 countries was selected according to the availability of the basic country specific variables necessary for the statistical analysis. For these 82 countries a random sample of 50 persons per country was chosen. Where there were less than 50 entries, all the available entries were coded. With respect to awards, we collected the following information when available: source of the award (country of origin, foreign country, or international); award-giving institution (state, private organizations, non-profit organizations, university, media) and category in which the prize was awarded (social welfare, military, science, culture/art, sport, media, business, religion). This information allows us to construct the number of awards received per person.

Five Popular Notions

1. Awards are important only in monarchies

In the past, awards have mainly consisted in state orders, honors and decorations and have been closely connected to monarchies. In Spain, for example, the Golden Fleece (founded in 1430) is the most important and best-known Order, but there is also the Order of Carlos III, of Santiago, of Isabella the Catholic and the Laureate Cross of Saint Ferdinand.

Table 17.1 suggests that the link between monarchies and awards no longer holds nowadays.

The left-hand panel of Table 17.1 lists the countries with the ten highest average numbers of awards received per individual. Among those countries with the highest number of awards, seven are republics (the Anglo-Saxon countries Canada, Australia – we count them as republics – and New Zealand; and the European countries Poland, Hungary, Switzerland and Finland). Only two are monarchies (the United Kingdom and Spain). The table also lists information on the number of awards received for

Table 17.1 Average number of awards per individual per country

	Total awards		Domestic state awards
Mean	2.66	Mean	0.43
Variance	1.96	Variance	0.11
Top 10 countries in each category			
Canada	6.82	Poland	1.78
UK	6.78	France	1.32
Poland	6.16	Tunisia	1.05
Australia	5.66	Egypt	1.02
Senegal	5.30	Malaysia	1.00
Hungary	5.00	Finland	0.88
New Zealand	4.96	Canada	0.86
Switzerland	4.70	Portugal	0.84
Finland	4.64	Ecuador	0.83
Spain	4.20	Philippines	0.82
Information on 7 additional countries			
USA	3.80		0.22
Canada	6.82		0.86
UK	6.78		0.78
France	3.60		1.32
Germany	2.46		0.48
Spain	4.20		0.70
Italy	1.96		0.22

an additional set of seven countries deemed to be of particular interest. Americans living in the United States receive a considerable number of awards, more than in France and Italy. The data indicate that today awards are no longer linked to monarchies. Indeed, staunch republics such as France, the United States and Switzerland are on top of the list of the 82 countries in our sample.

It might be argued that the monarchic link of awards would become apparent when awards bestowed by the domestic state are considered. Column 2 of Table 17.1 shows that among the top ten countries, there is an even smaller number of monarchies (Tunisia and Malaysia) but eight republics. The United Kingdom and Spain drop out of this list. This suggests that, surprisingly, state awards tend to be even more popular in republics than they are in monarchies.

2. Awards are mainly used in the military sector

Judging from pictures appearing in the press of soldiers and officers having their chests covered with orders, decorations and medals, it might

be concluded that most awards are received by the military. However, our data suggest that awards are not mainly a military affair.

Of the 82 countries in the sample, 49 countries contain individuals from the military sector in their sample of individuals drawn from the *IWW*. Averaged over these 49 countries, these people receive 11 per cent of the total number of awards. If one includes the remaining countries in the calculation, assuming that these exhibit zero awards per person in the military sector, this figure falls to 7 per cent. But in a few countries awards focus indeed on persons in the military. In Uganda, Paraguay, and Venezuela, for example, one third to almost one half of all awards (46 per cent, 38 per cent and 37 per cent, respectively) are given to people in the army. However, these countries are the exception rather than the rule. When considering domestic government awards only, the share of awards going to persons in the military sector is larger (15 per cent or 9 per cent depending on whether countries without military personnel in the sample are included in the calculation). However, this share is still far from being dominant.

3. There are few awards in academia

It might be expected that in academia intrinsic interest in scientific progress and/or monetary compensation would provide all the motivational drive needed and that awards are not necessarily held in high esteem.

In contrast to this notion, however, academia has an elaborate and extensive system of professional associations awarding a great number of medals. Nobel Prizes are certainly the most visible ones. Many prestigious fellowships exist in academies of science. Moreover, there is a complicated system of titles (not always connected to functions), such as that of lecturer, reader, assistant professor, associate professor with or without tenure, full professor, named professor, university professor, distinguished professor, etc. Honorary doctorates are another form of highly valued awards in academia.

Table 17.2 reports that almost one quarter of all awards (23 per cent) are given to individuals in academia.

Switzerland and Belgium lead with a share of 66 per cent of all awards going to individuals in academia. In Turkey the academic sector is also a major recipient (61 per cent). There are five additional countries in which half or more of the awards go into this sector (Netherlands with 56 per cent, Germany with 55 per cent, Australia with 53 per cent, and Nigeria with 50 per cent).

Column 2 shows the ten top countries listed according to the average number of awards received by the elite. These include the United States, and several other countries whose university systems count among the

Table 17.2 Awards per country going to individuals in academia

Share of total awards		Average number of awards	
Mean	0.23	Mean	3.76
Variance	0.03	Variance	7.62
Top 10 countries in each category			
Switzerland	0.66	Belgium	10.83
Belgium	0.66	Venezuela	10.00
Turkey	0.61	Switzerland	9.50
Netherlands	0.56	Japan	9.43
Germany	0.55	USA	9.43
Australia	0.53	Lithuania	9.17
Nigeria	0.50	France	8.50
Sweden	0.47	Poland	7.67
Israel	0.45	Argentina	7.60
El Salvador	0.43	Australia	7.50
Information on 7 additional countries			
USA	0.35		9.43
Canada	0.21		6.00
UK	0.19		6.50
France	0.28		8.50
Germany	0.55		3.37
Spain	0.06		1.71
Italy	0.42		3.80

leading ones: Belgium, Switzerland, Japan, France and Australia. But some other countries give much weight to bestowing academics with awards though their universities are not considered to be among the best (Venezuela, Lithuania, Poland and Argentina).

Our data suggest that it is mistaken to claim that awards are unimportant in the academic system. Individuals in the scientific sector, the place of rational discourse, are quite happy to receive awards.

4. There are few awards in the business sector

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 seeing their performance compensated in monetary terms. Moreover, transactions in the market sector are typically considered to aim solely at realizing mutual material advantages. This would disqualify awards as they consist in a paper certificate or a small trophy with a value close to zero. Moreover, awards are inefficient as compared to monetary compensation as they are not fungible and competition should therefore drive them out of existence.

Table 17.3 Business awards

Average number of business awards per person		Average number of awards of a person in business sector		Proportion of awards in country handed out for business activities	
Mean	0.06	Mean	1.14	Mean	0.02
Variance	0.01	Variance	1.62	Variance	0.00
Top 10 countries in each category					
Canada	0.52	Canada	4.78	Saudi Arabia	0.21
Singapore	0.46	Venezuela	4.75	Korea, Republic of	0.15
USA	0.34	Israel	4.00	Singapore	0.15
Saudi Arabia	0.27	Luxembourg	4.00	Tanzania	0.14
Australia	0.26	Ukraine	3.60	USA	0.10
Korea, Republic of	0.24	UK	3.50	China	0.10
Philippines	0.20	Australia	3.43	Israel	0.09
Sweden	0.18	Nigeria	3.38	Pakistan	0.09
Turkey	0.16	Poland	3.00	Canada	0.08
Israel / Switzerland	0.14	China	2.80	Turkey	0.08
Information on 7 additional countries					
USA	0.34		1.17		0.10
Canada	0.52		4.78		0.08
UK	0.04		3.50		0.01
France	0.04		1.50		0.01
Germany	0.06		0.47		0.03
Spain	0.06		0.33		0.02
Italy	0.04		1.14		0.02

However, already a casual observation of business practice suggests that awards and titles are very important. Consider Federal Express, which confers a host of awards, for individual as well as team efforts. These include the 'Circle of Excellence Award' which is presented monthly to the best-performing FedEx station, and the 'Golden Falcon' which is awarded to employees who go beyond the call of duty to serve their customers. Honorees of the latter award receive a golden uniform pin, a congratulatory phone call from a senior executive and ten shares of stock.

Column 1 of Table 17.3 shows that across all 82 countries, the average individual has 0.06 business awards. This number may sound small, but is quite sizeable considering the large number of politicians, artists and sportspersons in the *International Who's Who* that typically are not

eligible for business awards, which lower the mean. The eleven countries with the highest number of business awards per individual in our sample 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 and Switzerland, but also some developing countries such as the Philippines and Turkey.

The second column of Table 17.3 indicates that in some countries, such as Canada, Venezuela, Israel and Luxembourg, business persons included in *IWW* on average indicate having received quite a number of awards (between four and five). China's business people listed in *IWW* receive a substantial number of awards, more than even the respective US business persons.

The claim made about the unimportance of awards in business is partly right (see column 3 of Table 17.3). Awards going to individuals active in business are shown to be of little importance in many countries such as Spain or Italy, but are very central in some of the economically most successful countries of the world, such as Singapore, the United States, China and Israel, with between 9 and 15 per cent of all awards. It may be conjectured that the picture will change in the future. An increasing number of countries may well adopt the practice of honoring business people with awards, thus imitating the economically particularly successful countries.

3. AWARDS PLAY AN IMPORTANT ROLE

The statistics presented in this chapter allow some interesting and unexpected insights. Awards are widely used in modern society and not solely in monarchies; they are predominantly in the civilian sector and are not mainly a military affair; and they are important in academia as well as in business. Hence, awards are worthwhile studying as they present a widespread empirical phenomenon that we currently know little about.

NOTE

1. Forerunners are Hansen and Weisbrod (1972), Besley (2005), and Frey (2005). A few isolated works discuss awards as incentives, e.g. Gavrila et al. (2005). For the case of corporations, Neckermann and Frey (2007) study the channels via which awards motivate and investigate the differences to monetary rewards. Malmendier and Tate (2005) as well as Neckermann et al. (2009) find that awards significantly affect the subsequent behavior of winners. Markham et al. (2002), Frey and Neckermann (2008), Neckermann et al. (2008), and Neckermann and Kosfeld (2009) show that award systems have a systematic incentive effect on performance in the corporate sector, and that managers rightly take awards seriously as incentive instruments.

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