

Honors: A rational choice analysis of award bestowals

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Abstract

Principals bestow awards in different forms, such as orders, medals, decorations, badges, prizes, or titles. Our contribution focuses on the givers' side of award bestowals and analyzes the distinct purposes that such bestowals serve. Awards have the potential to raise their recipients' intrinsic motivation, while money is more likely to crowd it out. Awards establish special ties of loyalty between the givers and recipients. The threat of withdrawal by the givers, and rejection by recipients, serves as a mutual control mechanism on future behavior. Givers may bask in the reflected glory of well-known personalities whom they honor. They may exploit the expressive function of awards and signal to agents and the public what kind of attitude and behavior they value.

Keywords

Awards, honors, loyalty, motivation, principal-agent framework, signaling

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Introduction

The motto of the Most Noble Order of the Garter, founded in 1348 by King Edward III, reads, “Evil unto him who thinks evil of it.” This motto might be applied to all orders and awards. It is generally mistaken to think evil of them and their givers’ intentions—as done by *The Economist* (2004), which featured an article on the British honors system titled “A ridiculous, outdated system that cannot be improved upon” (p. 31). We argue that in some regards, awards are superior to other incentive instruments normally considered in economics.

Awards remain much employed in most contemporary societies, as they are a motivational instrument with quite different properties from monetary bonuses. Most importantly, awards can serve as incentives when desired performance is difficult to precisely define and measure. While monetary incentives risk crowding out intrinsic motivation, an award offers a motivational device with which the giver can support intrinsic motivation (Frey, 2007). This is of great importance in many activities. Awards therefore provide a welcome additional, and sometimes alternative, instrument in all those areas in which monetary bonuses do not produce the desired results. Surprisingly, the role of awards as motivational instruments has been little studied; it has in particular been largely neglected in economics. There are also other dimensions in which awards differ from monetary incentives (see Frey, 2005). Awards are a sort of “capital” given rather than a recurrent flow; they derive their incentive power from the (perceived) uniqueness of the event.

Our article does not glorify orders, decorations, crosses, or other awards. It employs economic analysis to identify their advantages and disadvantages over competing instruments used by principals to align the motivation of agents. Awards are, in particular, compared to monetary incentives in the form of pay for performance (bonuses), which are the focus in conventional economic theory. Awards and money can of course also be combined. When money is added to awards, the size of the purse signals the importance the giver attributes to a particular issue; it also serves to position the award among other prizes and incentives (Kay, 2012b).

Notwithstanding the criticism honor systems and awards face, the demand for distinction appears almost limitless. Thus, the First Duke of Wellington, Arthur Wellesley (1769–1852), received a seemingly uncountable number of titles of nobility and military ranks,¹ and was conferred most of the major orders of his time.² Somewhat more recent are the pictures showing the German Reichsmarschall Göring or Soviet marshal Zhukov with uniforms covered by orders and medals. At times the chests of such individuals appear to be too small to provide enough space for the many awards to be

showcased. But this is not only true for the military personnel of dictatorial countries. A case in point is the American four-star general David Petraeus, who carried more than 20 decorations on his uniform. Strong demand for awards is also exerted in other areas, including the arts, film, sports, business, and academia (see Frey and Gallus, 2015). Well-known examples in the cultural area are the Academy Awards, or “Oscars” (e.g. Levy, 1987; Nelson et al., 2001), or the Man Booker Prize (e.g. Anand and Jones, 2008; Kovacs and Sharkey, 2014; Street, 2005); in academia, the Nobel Prizes (e.g. Adams and Raymond, 2008; Rablen and Oswald, 2008) and the John Bates Clark Medal in economics (see Chan et al., 2014); and in gastronomy, the Michelin Stars (e.g. Gergaud et al., 2007; Surlmont and Johnson, 2005). In the corporate sector, there is also a great number of awards, such as the “Manager of the Year” (e.g. Malmendier and Tate, 2009).

While there are several contributions focusing on the demand side of awards, the supply side has so far been neglected by researchers. Notable exceptions are Frey (2005) advancing propositions about the use of awards, Kay (2012a) on the use of prizes in government, and the in-depth discussion by English (2005) on the symbolic aspects of awards. This article focuses on the giver’s side of award bestowals. Many different principals, ranging from monarchs, presidents, and other public authorities, to leaders in public and private organizations, hand out awards, often in large numbers. To our knowledge, this contribution provides the first systematic account of the bright and dark sides of awards from the perspective of the *award giver*. It contrasts awards with other rewards, in particular with monetary incentives.

Section “Related literature” shortly surveys the literature on awards. Section “Confirmatory and discretionary awards” distinguishes two basic types of awards, confirmatory and discretionary awards, as they involve different mechanisms and considerations. The following section looks at the benefits and costs to award givers. In each case, implications are derived. Section “Implications for future research” discusses issues to be further explored and the major data problems involved. The last section concludes.

Related literature

A science called phaleristics is devoted to the study of particular orders, gathering and documenting minute information on their statutes, history, and insignia (e.g., Pedersen, 2009, on the Danish Order of the Elephant). Sociology has evolved a rich literature on concepts related to awards, such as fame and esteem, status, and social distinction (e.g., Bourdieu, 1979; Elster, 1985; Sauder et al., 2012). In economics, a first and early endeavor

to build a theory of awards was made by Hansen and Weisbrod (1972). It was taken up some time later by other economists (Besley, 2005; Frey, 2005; Gavrilu et al., 2005). General accounts of awards have subsequently also been developed in English (2005), Frey (2006, 2007), Frey and Neckermann (2008), Gallus and Frey (2015); a survey of the literature focusing on the effects of awards on their recipients is provided in Frey and Gallus (2015).

Some studies have made an effort to empirically analyze the consequences of receiving awards. Looking at awards given to chief executive officers (CEOs) by the business press, such as “Manager of the Year,” Malmendier and Tate (2009) reach the surprising conclusion that these honors induce their recipients to devote their attention to issues such as writing books or sitting on other companies’ boards, at the expense of the performance of the CEOs’ original firms (see also Siming (2012) for further evidence on the value managers attach to public honors). A similar result to that by Malmendier and Tate has been found for the recipients of the major award in mathematics, the Fields Medal, which is given to the best scholars below the age of 40. In their analysis, Borjas and Doran (2013) show that medalists’ productivity declines after winning the award, an effect the authors attribute to the winners’ increased propensity to “play the field” and study unfamiliar topics that are less likely to be published.

Chan et al. (2014) employ a novel technique to investigate other prestigious honors in academia, such as the John Bates Clark Medal, which is given to particularly promising economists in the United States. Constructing a synthetic control group mirroring the award winners’ performance before the award, the authors are able to contrast the winners’ and control group’s performance trajectories after the event of the award bestowal. After 5 years, winners publish significantly more articles (13%) and the articles they had previously published are cited considerably more (50%) than had they not received the Clark Medal.

Another article (Gallus, 2015) presents results from a randomized field experiment in the voluntary sector, where intrinsic motivation is a crucial prerequisite and money cannot be used to motivate people to uphold their engagement. The analysis reveals that a purely symbolic award without any material or career-related implications increases the retention rate among newcomers by 20% in the month following the award bestowal, and the effect persists over the following four quarters. Corroborating these positive effects, in an analysis of an award given to employees for voluntary work behaviors at a call center, Neckermann et al. (2014) find that receiving this award can also motivate better performance on core tasks of the job.

The giver's side of award bestowals has so far received only scant attention. Some contributions (Anand and Jones, 2008; Anand and Watson, 2004; Khaire and Wadhvani, 2010) look at how awards can be used in the cultural and arts sector to influence organizational field evolution. Other analyses adopt a principal-agent approach (see, for example, Frey and Gallus, 2014) and consider the case of prizes that serve as explicit *ex ante* incentives. The study of inducement prizes as innovation incentives has garnered most attention in this respect (Brunt et al., 2012; Kay, 2011; Moser and Nicholas, 2013; Murray et al., 2012). For other studies looking at the incentive effects of awards, see Kosfeld and Neckermann (2011), Gubler et al. (2013), and Ashraf et al. (2014).

Confirmatory and discretionary awards

It is useful to distinguish two different types of awards (see, for example, Gallus and Frey, 2015).

Confirmatory awards

Principals may bequeath awards for performance that is well defined and measurable. Involving an almost automatic process, donors are unable to decide themselves whether to give or to withhold the award. Persons achieving or surpassing a predetermined performance level can count on being awarded (except if considered unfit because of inappropriate conduct). Examples of such confirmatory awards are Members of the Order of the British Empire (MBEs) given to Olympic game winners from the Commonwealth, or Knight Bachelors given to Nobel Prize winners. In many countries, confirmatory awards are common in the diplomatic, military, and public services, as well as among statesmen and other politicians.

Confirmatory award bestowals bear the risk of inviting strategic action because it is clear what criteria have to be met to win an award. Agents have an incentive to concentrate all efforts on meeting these criteria while disregarding other performance dimensions (see Holmström and Milgrom, 1991, who first drew attention to such multiple tasking effects). Agents are even induced to fake their performance and to manipulate the criteria in their favor. Confirmatory awards and monetary bonuses both share these problems. By their very nature, bonuses must be based on well-defined and measurable criteria (Osterloh and Frey, 2000). They risk provoking rat races with potentially deleterious consequences for the organization and the individuals involved (Bender and Theodossiou, 2014).

Discretionary awards

The second type of awards grants the principal leeway as to whether, what for, and to whom to bequeath an award. In the extreme, the decision solely depends on the donor's decision. Indeed, it may be one of the few areas in which even today the decisions by monarchs and national presidents are not justiciable. It is, for instance, unheard of that someone would go to court in order to be appointed Knight of the Garter.

In the following, discretionary awards are considered because only they provide an opportunity to the givers to recognize that behavior which is truly exceptional and goes beyond what was expected or asked for. Discretionary awards allow the givers to respond to the unexpected, and therewith possibly induce more of that desired behavior, also on the part of third parties. Discretionary awards are also clearly different from monetary bonuses and are therefore worth studying separately.

Award givers

We mainly draw on principal-agent theory to analyze the givers' benefits and costs of handing out awards. Alternative theoretical approaches are signaling theory (Spence, 1973, used, for example, in Frey and Neckermann (2010) and Frey and Gallus (2015)), self-determination theory (e.g. Harrison and Jepsen, 2014), or norm theory (e.g. Duguid, 2007).

Principals have a strong incentive to bestow awards. The act adds to their authority and power by reaffirming the existing hierarchical order and drawing welcome attention from the media. The public bestowal thus not only serves the award recipient; it may also considerably enhance the award giver's prominence. Award givers gain an opportunity for self-celebration. They may also leverage their utility from the award by deriving additional reputation from already-famous persons who they intend to award. The givers thus "bask in reflected glory." A case of such reputation-pooling (see also Brennan and Pettit, 2004: 196) occurred when MBEs were given to The Beatles, bringing the British government and monarchy closer to the millions of admirers of the famous music band. Establishing and handing out an award or prize may also help to clear part of past misbehavior or questionable actions (English, 2005; Ginsburgh and Weyers, 2013). An example would be the Nobel Prize established by the inventor of explosives, which have since inflicted great human damage in wars.

Awards may also be used to structure a field by indicating what the giver considers to be important (Anand and Watson, 2004). Awards make salient the domain on which the award giver is focusing, and they may encourage

norms of desired behavior. The Prizes that the Berkeley Initiative for Transparency in the Social Sciences (BITSS) created in 2015 are a case in point; these prizes are meant to promote transparent and open social science research, and they also signal the importance that the Initiative attaches to research integrity. Moreover, awards are a suitable incentive mechanism when monetary incentives would risk crowding out intrinsic motivation (Bénabou and Tirole, 2003; Frey, 1992, 1997; Gallus, 2015). When performance cannot be adequately defined *ex ante* or measured *ex post*, awards have a comparative advantage over monetary incentives in that they allow for a general and encompassing recognition of effort and performance.

Finally, one of the most important functions of awards is to establish a bond of loyalty between the donors and recipients. The fact that this matters greatly was well expressed by Napoléon Bonaparte, who reportedly stated, “Le ruban d’un ordre lie plus fortement que des chaînes d’or.” He believed in the capacity of awards to produce loyalty above and beyond material incentives. The donors may strategically exploit the bond of loyalty established. They can put particular persons in an uncomfortable and even dangerous situation by presenting them with an award. This situation occurs when the would-be recipient does not agree with, or even opposes, the donor’s ideas, behavior, or policies. The potential award recipient would prefer to refuse the award because its acceptance commits an undue amount of loyalty to the giver. Outsiders interpret acceptance as a sign of association and agreement with the donor. However, in particular in authoritarian or dictatorial states, refusal of such an “honor” risks angering the principal and can be denounced as a disloyal action towards the state. Not accepting an award may therefore produce heavy costs for the person refusing the honor. The donor has a strategic advantage when using awards in this manner.

Normally, orders and decorations are given to recognize subjects who closely follow the sovereign’s commands. However, Empress Maria Theresa of Austria went one step further. If a military commander disobeyed an explicit command from higher-ups, he could be given the Imperial Military Order of Maria Theresa—but only if his action turned out successful (otherwise, he was demoted and punished). The Empress must have been acutely aware of the importance of maintaining special ties to military commanders and reintegrating norm-breakers into the system. By handing out this Order, she managed to keep the respective military commanders within the bond of loyalty rather than pushing them out through punishment.

The bestowal of awards is a favorable policy for principals in particular because it often entails little cost. In most cases, the award itself consists of a piece of ribbon, or a nicely framed document. In the case of some orders, the medal must even be bought by the recipient. Others are given for free

but must be handed back after the recipient's death. The low costs involved are a major reason why income and cash-constrained institutions in the non-profit and cultural sectors are bound to hand out a great variety of awards (consider, for example, the manifold prizes awarded by United Nations Educational, Scientific and Cultural Organization (UNESCO); Vaessen and Raimondo, 2012).

However, the bestowal of awards is only effective if their numbers are limited. As put by Winston Churchill, in a speech in the House of Commons in August 1944, "[...] a distinction is something which everybody does not possess. If all have it, it is of less value" (Phillips, 2004: 1). When a particular award is handed out too liberally, it loses its value and may even be ridiculed by recipients and the public. The incentive and loyalty effects then become ineffective. To some extent, the inflationary use of an award can be counteracted by adding more ranks to an existing award (e.g. Knight, Officer, Grand Officer, Master), or by creating new awards. The number of awards produced is likely to depend on the principal's expected remaining time in power. If principals have a long future time horizon, they have an incentive to keep awards scarce. In contrast, if their time horizon is short, they are induced to hand out, and to create, a large number of awards. The future negative inflationary effects only partly apply to them, so that the cost of producing more awards is low. This is indeed observed for dictators before they fall. A pertinent example is Adolf Hitler, who in his last public appearance shortly before his suicide even handed out the (formerly highly valued) Iron Cross to a number of children soldiers (Beever, 2002; Lepage, 2009). The same behavior has been observed not only for other authoritarian leaders but also for democratic politicians before leaving office. British Prime Minister Harold Wilson created an excessively large number of (Labour) lords shortly before giving up his position. Such behavior with respect to awards is similar to a political business cycle in fiscal policy measures in democracies. Its creation is motivated by the intent to maximize the probability of remaining in power (for surveys, see Mueller, 1997, 2003). After coming to power, a politician may then be restrictive in handing out awards because the inflationary costs weigh heavily. The lower the probability of reelection, the smaller is the cost of award inflation; hence, the higher will be the number of awards handed out.

Other costs related to awards arise from the danger that the recipients may prove to be unworthy, or that even worthier candidates remain unrecognized and are not awarded. This can happen because of insufficient information or misinterpretation regarding candidates' past behavior and achievements, or because of disloyal and unacceptable behavior after receipt of the award. In both cases, the prestige of the donor is damaged.

The awards handed out in the past lose much of their positive influence on the recipients' attitudes and behavior, and in extreme cases may even have a negative effect. As award donors are aware of these looming costs, they tend to make extensive efforts to assemble useful information on the candidates' achievements and character beforehand. The same damaging effect on the award giver occurs when a would-be recipient publicly refuses an award. A well-known example is French philosopher Jean-Paul Sartre, who declined the Nobel Prize in Literature. To avoid such embarrassing situations for the donor, would-be recipients are normally asked beforehand and in private whether they would accept a particular award. This is no easy task because the would-be recipients may behave strategically. They may implicitly or even explicitly indicate the intention to accept an award, only to give it back in the future, to signal disagreement with the giver's actions. Rejecting an award may be advantageous as it draws the public's attention to the person and his or her reasons for acting in this way. Vice versa, givers may also decide to withdraw awards. The threat of withdrawal can be used as a control mechanism (Goode, 1978) with which givers can influence the recipients' behaviors even in the absence of any formal contract specifying how award recipients are expected to behave in the future.

Yet another potential cost of bequeathing awards in an organizational setting is that the awards may draw the attention of outside employers who might lure away the winners by offering them a higher salary or other perks and benefits. In a competitive environment, the increase in loyalty offered by the award givers must outweigh the utility gain of possible monetary outside offers. The more successful an award is at creating a bond of loyalty to the principal, the lower is the monetary compensation necessary to keep the award winners.

While a symbolic award often just consists in "a piece of ribbon" (as quipped by Besley, 2005), they are not necessarily low cost. A public event must be staged in which the award is bequeathed; in some cases, a public relations campaign is launched, and the jurors selecting the candidates and winners must sometimes be paid.

Implications for future research

Awards have only recently become a topic of study in the social sciences and particularly in economics. There are hence many open issues to be explored. An important one to be taken into account by award givers is the possible negative reactions by non-winners, possibly due to envy. Awards may also have negative consequences on winners. Thus, for example, winning an Academy Award may jeopardize work quality because the film

producers may attempt to exploit the winner's popularity and release a movie in an unfinished state. In addition, there is the risk of typecasting the winners because they are induced to accept roles similar to their winning role (Harrison and Jepsen, 2014; Levy, 1987). A further negative effect on winners may be that expectations on their performance are raised so much that they become increasingly difficult or even impossible to fulfill. Winners can also start placing exceedingly high demands on themselves, which they cannot meet over the long run. Surlmont and Johnson (2005) report the fate of a chef who committed suicide when downgraded from his three Michelin Stars. Some literary awards have been found to have paradoxical negative effects on the public's evaluation of the winners' quality, possibly also due to unmet expectations (Kovacs and Sharkey, 2014). It so far remains unknown, however, whether this effect can be generalized to other prizes in literature and beyond.

An issue to be further explored is "negative" awards, where people are chosen because of their bad performance. Examples are the Golden Raspberry Awards for movie actors or the Public Eye Awards for lacking corporate responsibility. Another interesting type of award is exemplified by the Ig Nobel Prize. A parody of the Nobel Prize, it is intended to celebrate the unusual and imaginative, achievements that make people laugh, and then think. Such humorous or negative prizes do not always have negative consequences for the recipients as they attract the attention of the public to the winner. A good example is the "Lanterne Rouge" which was given to that cyclist in the Tour de France who was listed last. The attention of the media on that person induced a competition to be the "worst" runner (Leonard, 2015). The question is under what conditions such negative awards have negative or positive effects on the winners.

Our article contains a considerable number of implications amenable to empirical cross-section and time series analyses. However, to our knowledge, there exists no reliable and broad data set for that purpose. There are several reasons for the absence of usable data. The analysis of awards is a new subject in economics, as pointed out in our review of the existing literature in section "Related literature," and no data have so far been collected. In contrast, phaleristics is historically oriented and does not seek to derive theoretical propositions (Frey, 2007). Public administrations in charge of national orders have collected some data (Phillips, 2004). However, these data are often incomplete, cover limited aspects, and are nationally oriented. The situation is even worse with respect to the large numbers of awards handed out by government officials on sub-national levels, or by semi-public and private organizations and firms. It seems to be impossible to collect reliable data taking into account the wide variety of awards ranging, for

example, from the appointment to the Order of the Garter to being declared “Manager of the Month.” An effort to collect internationally comparable data contained in the *International Who’s Who* has been only partially successful (Frey and Neckermann, 2009). These data are useful in providing some insights, for example, the observation that business awards are not only a frequent phenomenon in market economies but also in more regulated economies, notably China, and that academics apparently attach great value to honors, having developed an elaborate awards system for themselves. However, the data are not sufficiently coherent and precise to enable conclusive econometric tests of theoretical propositions.

Discussion and conclusion

Awards provide additional possibilities for principals to guide agents’ behavior, over and above what monetary incentives allow for. They have distinctive advantages and disadvantages compared to other incentive instruments, particularly monetary compensation, which is the focus of conventional economic analyses.

Awards are widely used, reflecting their social importance. Far beyond their use in monarchic systems, they play a prominent role in the military, public services, culture, sports, and academia. Somewhat surprisingly, they are also central in for-profit enterprises, which hand out a multitude of different awards with many different levels and often no money attached.

Further research is needed to understand the effects of awards on the different stakeholders involved in their bestowal. What has been particularly neglected so far is the giver’s perspective. We point out several ways in which principals can leverage the power of awards. They can use awards to attract media attention and make their own cause more popular. Conversely, awards can also be used to erase the giver’s doubtful past behavior from collective memory. Giving awards to already-famous persons or groups provides givers an opportunity to bask in reflected glory and enhances their own reputation and status. Award ceremonies offer a welcome occasion to indulge in self-celebration. They also allow the principal to forge special ties of loyalty to the recipient. Awards are a superior reward; where monetary pay risks crowding out recipients’ intrinsic motivation, they can even support intrinsic motivation. Under conditions where performance criteria cannot be well defined *ex ante* or measured *ex post*, awards offer the advantage that their bestowal can be based on broad and encompassing performance evaluations. For cash-constrained organizations in particular, the low cost of awards is another important feature. The fact that no money need be involved can be important in many situations. It matters greatly where the

value of behavior the principal wants to honor cannot be expressed in a one-dimensional figure (as would be the case with money).

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Notes

1. In addition to being the first Duke of Wellington, he was also Baron Douro, Viscount, Earl and Marquess of Wellington, Conde de Vimeiro, Duque de Vitoria, and Marques de Torres Veras in Spain, Duque de Ciudad Rodrigo in Spain and Prins van Waterloo in the Netherlands, and so on.
2. Knight of the Order of the Garter, Knight of the Most Illustrious Order of the Golden Vlies, Knight Grand Cross of the Order of the Bath, of the Royal Guelphic Order, of the Order of the Sword, of the Orders of the Black Eagle and of the Red Eagle, of the Imperial Military Order of Max Joseph, of the Imperial Military Order of Maria Theresa, Knight of the Order of the Elephant; Field Marshal of Her Majesty's Forces, of the Austrian Army, of the Hanoverian Army, of the Netherlands, of the Portuguese Army, of the Prussian Army, of the Russian Army, and Captain General of the Spanish Army, and so on.

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