

The Value and ROI in Employee Recognition:

Linking Recognition to Improved Job Performance and Increased Business Value — The Current State and Future Needs



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Executive Summary

Today's economic challenges require organizations to find new ways to not only reward top performers, but to motivate *all* workers to improve performance while maintaining or increasing business value. Both must be done as cost-effectively as possible.

Traditional methods for keeping and motivating workers utilize compensation and benefits. However, as this report emphasizes, those are only two parts of an organization's "Total Reward" package. In fact, organizations can reward their workers in many ways, including with pay, benefits, work-life improvements, and incentives for pre-determined job performance—as well as with various forms of recognition. WorldatWork defines recognition as practices that:

Acknowledge[s] or give[s] special attention to employee actions, efforts, behavior or performance. It meets an intrinsic psychological need for appreciation for one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Whether formal or informal, recognition programs acknowledge employee contributions immediately after the fact, usually without predetermined goals or performance levels that the employee is expected to achieve. Awards can be cash or non-cash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.).

(www.worldatwork.org/totalrewards)

This report highlights recognition's role by demonstrating that:

- Recent studies by Gallup, the Corporate Leadership Council, Towers Perrin and others show that recognition is highly correlated to improved employee engagement with both the employee's work and organization.

- Increased employee engagement has a dramatic positive effect on improving job performance and capturing business value.
- Organizations actively seeking to improve employee engagement, including through the use of formal and informal recognition, financially outperform their competitors.
- Unlike compensation and incentive-based programs, recognition programs potentially can create a positive cycle of ever-increasing employee engagement and motivation, with resulting improvements in job performance-related behaviors to optimum levels with a limited investment.

In addition, we present three case studies—Scotiabank, Delta Airlines and MGM Grand—that illustrate how some organizations are restructuring their recognition programs to better align them with employee engagement and business strategy. A key finding, exemplified by these case studies, is that recognition programs need to include multiple forms of awards—e.g., what is recognition for one worker will not necessarily work with all. Also, recognition programs need not be expensive. In fact, many of the studies we discuss show that non-cash awards, including simple verbal recognition, usually work best. What matters is that the recognition is valuable to the worker and is awarded for behaviors linked to specific job performance goals.

This report closes with a discussion of the need for further studies of recognition in the workplace—namely we call for:

- New, rigorous empirical studies that accurately measure the gains achieved by implementing specific types of recognition programs.
- More effective use of Return on Investment (ROI) and other methods that can better measure the long-term gains in business value that are the hallmarks of successful recognition programs.

Introduction

Bonuses, incentives, rewards and recognition are making headlines today—for all the wrong reasons. Pulled into the current emotional environment, these proven organizational performance tools have become the focus of a one-sided media critique that overshadows or ignores their value. While any tool can be misused, these approaches have an evidence-based history of providing value to organizations and their employees.

Several reasons drive individuals—employees, employers, taxpayers, politicians and reporters among them—to question the value or appropriateness of incentives or recognition:

- **Definitions.** Most people do not understand what incentives or recognition plans are, or recognize the differences between the two (see *Defining the Landscape: Key Terms*).
- **Ineffective use.** Some managers and organizations do a poor job designing, implementing and managing these tools.
- **Lack of value reporting.** Generally, the media report on only ineffective plans or those with inappropriate outcomes.

These reasons, as well as the need for a comprehensive review of the available data on recognition program effectiveness, inspired this research and report.

What is the value of employee recognition? What are key elements of effective employee recognition programs? How does one determine the ROI of employee recognition? It is our purpose to address these critical and timely questions by reviewing:

- Key theories of motivation (e.g., intrinsic and extrinsic) which are most applicable to the workplace and have been shown to provide the most linkage with job performance. (See Appendix 1.)

- The affect or non-affect of various types of rewards (e.g., tangible and non-tangible) upon work motivation.
- Evidence of how increased levels of worker motivation can result in increased employee engagement and improved job performance.
- Available methods for measuring the effects of various types of rewards on job performance and division/business performance (e.g., Return on Investment (ROI), Value on Investment (VOI), and Lifetime Employee Value¹) as well as possible reasons for why they are seldom used.
- Examples of effective real-world reward programs—what are the common “best principles” that define them?

In today’s global workforce environment, there is competition for: 1) quantity of workers—the Baby Boomers are retiring and the generation behind them is smaller; 2) quality of workers (e.g., workers possessing the skills for today’s economy) and 3) value from workers—the organizational value obtained from the workforce and individual workers. Recognition programs can help organizations in all three areas—by creating a culture of recognition that helps attract and retain top performers and, more importantly, by improving performance by increasing an individual’s engagement with his/her job and employer. Indeed, recognition has been shown to be particularly effective for increasing productivity, profit and customer satisfaction (Coffman and Harter, 1999). Further, the value of recognition programs to an organization, like other parts of the rewards package (e.g., compensation, benefits, and incentives), can be measured despite their more qualitative nature. In fact, a key finding that emerges from our review is that recognition is among the best (and certainly most cost-effective) methods of improving work motivation and employee engagement (see the Kanungo and Mendonca, Gallup, and Corporate Leadership Council studies discussed on the following pages).

¹ Employee Lifetime Value (ELTV) is a long-term metric of the financial value of an employee to an organization.

Of course, recognition is but one method of rewarding workers. Others include pay, benefits, incentives, development and career opportunities and various forms of life-work arrangements. Each reward is part of a total incentive program that should, for optimum results, be integrated with an organization's talent management and business strategies. (see Figure 1 and Figure 2, and accompanying text for two related "Total Reward" models.). Recent studies show that the different aspects of a total reward package may affect individual performance, retention and business success in different ways (see, e.g., Harter et. al, 2002 and CLC, 2004). This is partially due to whether a worker views the reward as an entitlement (i.e., part of their compensation) or as something special - aligned to and rewarded for actions beyond the ordinary.

A key to the success of the recognition component of the total rewards package is whether it motivates workers in ways that increase the level of engagement with their job and their employer. From the organization's viewpoint, engaged workers will increase their level of discretionary effort (if the goal is performance) or desire to stay on the job when increased retention is the goal. Building on this point, we highlight throughout this report several commonly agreed upon "best principles" for applying recognition programs. These principles, which should result in the behavioral changes most often linked to heightened employee engagement, improved job performance and, ultimately, increased business value include:

- Use both formal and informal recognition to build a "culture of recognition" in the organization.
- Provide a wide variety of recognition rewards—realizing that what is a reward for one person may not be for another.
- Emphasize the recognition of increased quality in performance, instead of simply quantity of effort.

- Recognize workers frequently—sporadic recognition may, in some cases, be worse than no recognition.
- Reward activities that are linked to specific business objectives and/or desired cultural values.
- Measure the cost of the recognition reward system and the benefits gained—whether through ROI or other methods.

The best way to implement a recognition program is as a rational, carefully formulated program that is based on sound theory and well integrated with an organization's business strategy—one that recognizes the behaviors most likely to positively affect an organization's value. (Daniel, 2005.) In addition, a rational program considers workers' desires, using tangible or non-tangible rewards that workers value, so that they will produce value in return. (Rath, 2004; Huff, 2006.)

Most current recognition programs may have been established for good reasons - e.g., improving the "culture of recognition" within an organization. However, current studies find that many organizations do not fully integrate the various aspects of the program with each other or with business strategy and/or desired culture. The result is a failure to capture the full value of worker recognition programs. (Huff, 2006; WorldatWork, 2008a.) A major goal of this report is to show the available evidence for the value of an integrated recognition program, as well as examples of how organizations are achieving this value in practice.

This report includes four parts:

1. An exploration of the **Structural Dimension** of how recognition programs fit into the larger context of an organization's total reward package consisting of compensation, benefits, incentives and other forms of tangible and non-tangible rewards—including recognition. How do (or should) organizations integrate the different components of a total reward package? What are each component's goals?

2. Discussion of the **Functional Dimension** of how recognition is part of a system linked to work motivation, employee engagement, and ultimately to job performance and business value. Recognition programs work when this linkage is understood and leveraged, so that increases in recognition result in additions in the system's output, business value.
3. A review of key research studies providing evidence that recognition, if properly applied, increases job performance and business value. A range of studies exists that treats recognition and measures its effectiveness in various ways. Within that range, some studies simply compare the financial performance (or another metric of business value) of organizations that have recognition programs with those that don't. Others take a more nuanced look, comparing organizations that stress certain key aspects of recognizing workers, such as whether they are being recognized for tenure or performance, and how often they receive recognition. These studies show a consistent correlation between utilizing recognition programs as an important part of the total reward package and higher business value.
4. A series of case studies that provide a snapshot of the range of programs currently employed. These case studies provide real-world support for the findings of the major research studies - that organizations that recognize their workers will, on average, outperform those that don't. They can also be read as experiments that do something that the surveys of multiple organizations don't—provide evidence of a true cause and effect relationship between recognition and increased business value.²

² See the discussion of the several large-scale surveys showing that engagement and/or recognition is correlated to improved outcomes. The limitation of most (if not all) survey studies conducted at one period of time is that improved recognition or engagement could result from enhanced organizational financial performance OR both improved recognition and performance could be the result of other, unmeasured factors.

Defining the Landscape: Key Terms

Recognition versus Incentive

Recognition: Acknowledging or giving special attention to employee actions, efforts, behavior or performance. Recognition can include both formal and informal programs and supports business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Recognition acknowledges employee contributions immediately after the fact, usually with predetermined goals or performance levels that the employee is expected to achieve. Recognition awards can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.). (modified from WorldatWork, 2008b)

Recognition is an after-the-fact display of appreciation or acknowledgement of an individual's or team's desired behavior, effort or business result that supports the organization's goals and values. Recognition involves day-to-day, informal and formal recognition. (Recognition Professionals International's Glossary of Terms)

Incentive: Any form of variable payment tied to performance. The payment may be a monetary award, such as cash or equity, or a non-monetary award, such as merchandise or travel. Incentives are contrasted with bonuses in that performance goals for incentives are predetermined. Generally nondiscretionary and can be paid at any time of the year. (WorldatWork, 2008b)

Forward-looking goals in which a reward is offered as a catalyst for achieving a particular job performance and/or standard. (Chang, 2004).

Reward versus Award

Reward:

An item given to an individual or team for meeting a pre-determined goal (Sometimes cash-based) (Recognition Professionals International Glossary of Terms)

Award:

An item given to an individual or team in recognition of a specific accomplishment (usually non-cash) (Recognition Professionals International Glossary of Terms)

An amount of cash, a prize, a symbol or an intangible reward given as a form of recognition. Awards can be in the form of money, prizes, plaques, travel and public commendations. The payouts of sales contests usually are called "awards." (WorldatWork Glossary)

Other Key Terms

Employee Engagement:

It is the extent to which employees commit to something or someone in their organization - the amount of discretionary effort they provide and how long they stay with an organization as a result of that commitment. (CLC, 2004)

Return on Investment (ROI):

For recognition programs, the ROI is the method used to measure the benefit gained as a function of the cost of the program.

Total Rewards:

The monetary and non-monetary returns provided to employees in exchange for their time, talents, efforts and results. Total rewards involve the deliberate integration of five key elements (Compensation, Benefits, Work-Life, Performance and Recognition and Development and Career Opportunities) that effectively attract, motivate and retain the talent required to achieve desired business results. (WorldatWork Glossary)

Value on Investment (VOI):

Another approach to ROI that emphasizes both the financial and non-financial impact of recognition. VOI includes all tangible and intangible benefits and overall value (financial and non-financial) produced by a business initiative—financial and non-financial. Too often the use of ROI focuses exclusively on only the financials and does not include the “softer” measures of value, such as teamwork and cultural values.

Work Motivation:

a set of energetic forces that originate both within as well as beyond an individual's being, to initiate work-related behavior and to determine its form, direction, intensity and duration. (Latham & Pinder, 2005)

- Intrinsic Motivation: an individual's desire to perform a task for its own sake. (Bénabou & Tirole, 2003).
- Extrinsic Motivation: contingent motivation to perform a task coming from another individual or organization - usually through methods such as pay, promotion, praise and/or recognition. (Mwita, 2002).

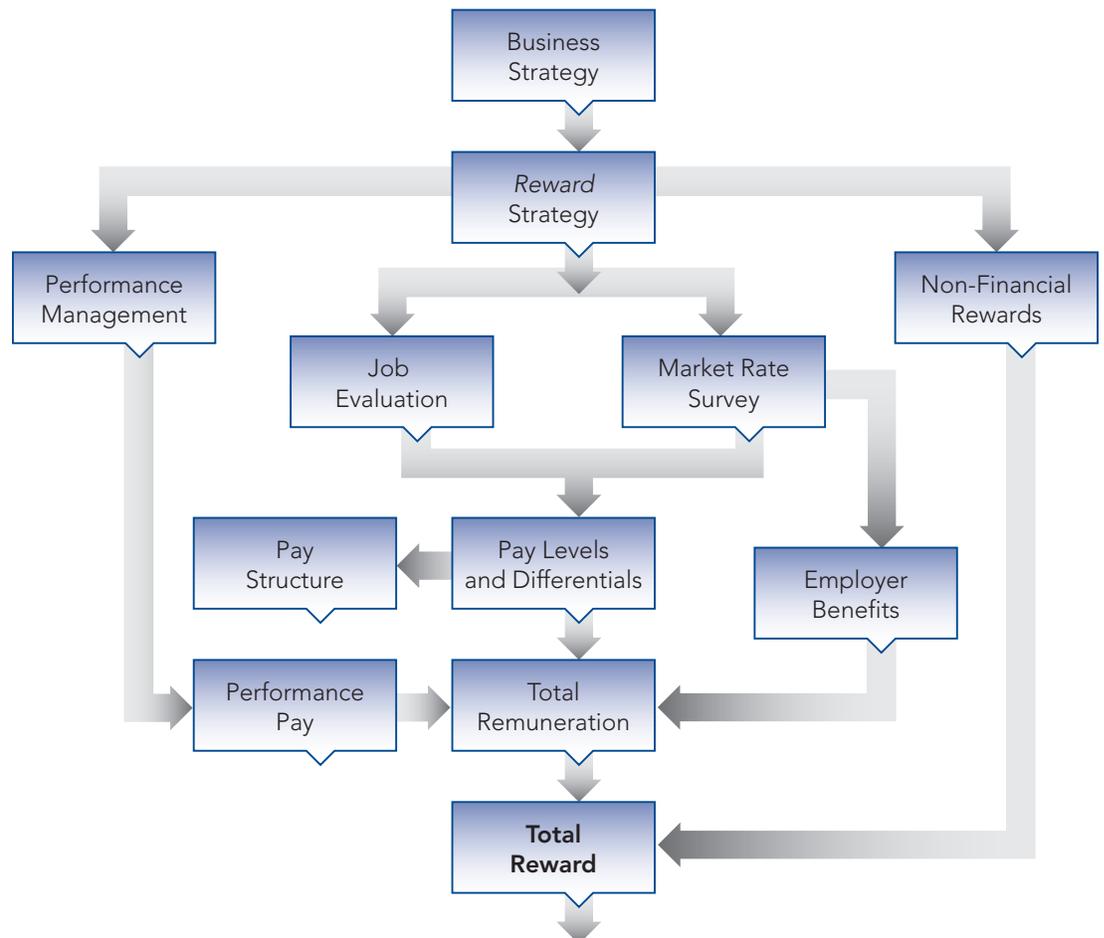
The Place of Recognition in the Total Reward Package

Recognition, reward and/or incentive programs are part of an organization's total reward strategy, also referred to as the compensation and reward system. The reward strategy is the organizational plan for how to divide the workforce's total reward among the various reward types—in the way that best furthers the business strategy. Figure 1 shows one type of total reward system, illustrating the system components (including performance pay, benefits and non-financial rewards) as well as the tools used to determine the various levels of reward (e.g., pay structure, market rate survey, etc.) In this figure, the non-financial rewards, which include the non-cash recognition systems used by many organizations, are not linked to

performance management—fact that is true of many organization's recognition programs. However, one best principle that is emerging from current research on the role of recognition in the workplace is that non-financial reward programs that are tied to the quantity and quality of individual performance have the greatest impact on improving overall business value. (Stolovitch et. al, 2002).

Regardless, this model has the advantage of placing total rewards into the context of system analysis, allowing links (and feedbacks) between the various components to be studied and measured. It also provides freedom for exploring the best way to move these pathways, thereby improving the system's effectiveness.

Figure 1. The Total Reward System - Model 1 (Sources: Armstrong, 1993; Mwita, 2002.)



Other total reward models explicitly link performance and recognition programs. WorldatWork's model, shown in Figure 2, uses five elements of a "total rewards strategy" to link organizational culture, business strategy and human resource strategy with increased talent attraction, motivation, and retention. WorldatWork's description of one element, *performance and recognition*, explains the linkage between the two components, as well as the role of other factors that we discuss later in this report:

Performance: The alignment of organizational, team and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement.

Recognition: Acknowledges or gives special attention to employee actions, efforts, behavior or performance. It meets an intrinsic psychological need for appreciation of one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Whether formal or informal, recognition programs acknowledge employee contributions immediately after the fact, usually with predetermined goals or performance levels that the employee is expected to achieve. Awards can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.). (WorldatWork, 2008b)

Another View of Recognition - Recognition Professional International

Recognition Professional International (RPI) is a non-profit organization dedicated to the understanding and promotion of effective employee recognition. While not in conflict with the WorldatWork definition of recognition, RPI's definitions does provide a useful comparison and evidence of the range of thoughts regarding recognition and recognition programs:

Recognition: Recognition is an after-the-fact display of appreciation or acknowledgement of an individual's or team's desired behavior, effort or business result that supports the organization's goals and values.

Day-to-Day Recognition encompasses a wide range of acknowledgement that is frequent, ongoing and informal. It may consist of Intangible Recognition, Awards, Celebrations or eligibility for Awards or Celebrations to recognize behaviors that support organizational goals and values. It may include thank you notes or forms that employees give to one another or verbal praise. All employees can participate in this recognition, supporting recognition up, down and across the organization.

Informal Recognition singles out individuals or teams for progress toward milestones, achieving goals or projects completed. Celebrations may include low-cost mementos or refreshments as a way to celebrate achievements or outstanding positive behavior. It is less structured than Formal Recognition and reaches a larger percentage of the employee population.

Formal Recognition consists of a structured program with defined processes and criteria linked to organizational values and goals, a nomination and selection process and an Awards ceremony where employees receive public recognition and are presented with awards in a formal setting. Generally speaking, it is an annual program and only a small percentage of employees are recognized.

(Recognition Professionals International)

Recognition Professionals International's recognition definitions point to many critical factors, namely:

- Effective recognition programs *reinforce* behaviors that improve individual and team performance, align with organizational values and result in better overall company performance. In system analysis parlance, this means that recognition programs create a positive feedback loop in which the increase in desired behaviors enhances recognition that, in turn, will further increase performance - potentially to its maximum level based on the abilities of the individual's abilities.
- Effective recognition programs can be *formal or informal* and, in fact, RPI's best practices for Recognition Strategy development strongly recommends a "3-D" model as most effective. RPI's 3-D recognition strategy includes low cost day-to-day, ongoing informal and structured formal recognition components. Almost all quantitative studies discussed in this report highlight the importance of increasing employee engagement—to increase job performance and, as a result, organizational performance. Many of these studies indicate that formal and informal programs that create a culture of recognition can help to achieve this engagement.

- Effective recognition programs provide *timely and frequent* recognition. In fact, one of the most extensive research studies conducted to date on the link between recognition and performance points to the need to recognize workers every seven days (see the Gallup multi-year employee engagement study discussed later in this report).
- Effective recognition programs link recognition to corporate strategy, specific goals and levels of performance improvements. This is important: There is considerable evidence that when recognition is misused or used in ways that are not linked to desired behaviors it can have no positive effect and, in some cases, can even decrease individual performance.
- Effective recognition programs include non-cash rewards. Considerable evidence exists that non-cash rewards are often preferable, both for increasing engagement (and resulting performance) and for maximizing the return on investment for recognition programs (e.g., non-cash programs often cost less, creating a positive cost-benefit relationship).

RPI uses seven practices as benchmarking standards when evaluating organization's recognition programs: recognition strategy, management responsibility, program measurement, communication plan, recognition training, events and celebrations and program change and flexibility. Similar standards have been identified by other groups as well.

Figure 2. WorldatWork's Total Rewards Model (WorldatWork, 2008b)



From Recognition to Business Value: The Recognition—Motivation—Engagement— Job Performance—Business Value System

In a large-scale 2004 study of employee engagement, the Corporate Leadership Council (CLC) found that only 11% of today's workforce demonstrate a very strong commitment to their organization, while 13% are actively non-engaged—the poor performers who regularly put in minimal effort. In the middle, 76% are described as being “up for grabs.” Elevating the engagement of both this great middle and the low performers can have a dramatic effect on individual performance and business success. In fact, the CLC found that when employee engagement increases, so does discretionary effort and retention—by as much as 20 percentile points for the former, and 87% for the later.

What are the best ways for an organization to increase employee engagement and reap the awards of improved individual, team, and business performance? As noted in the previous section, all parts of the total reward package, from pay to non-tangible rewards, affect engagement and performance. The remainder of this report focuses on the recognition component of the total rewards model.

In theory, organizations reward workers for one of two reasons:

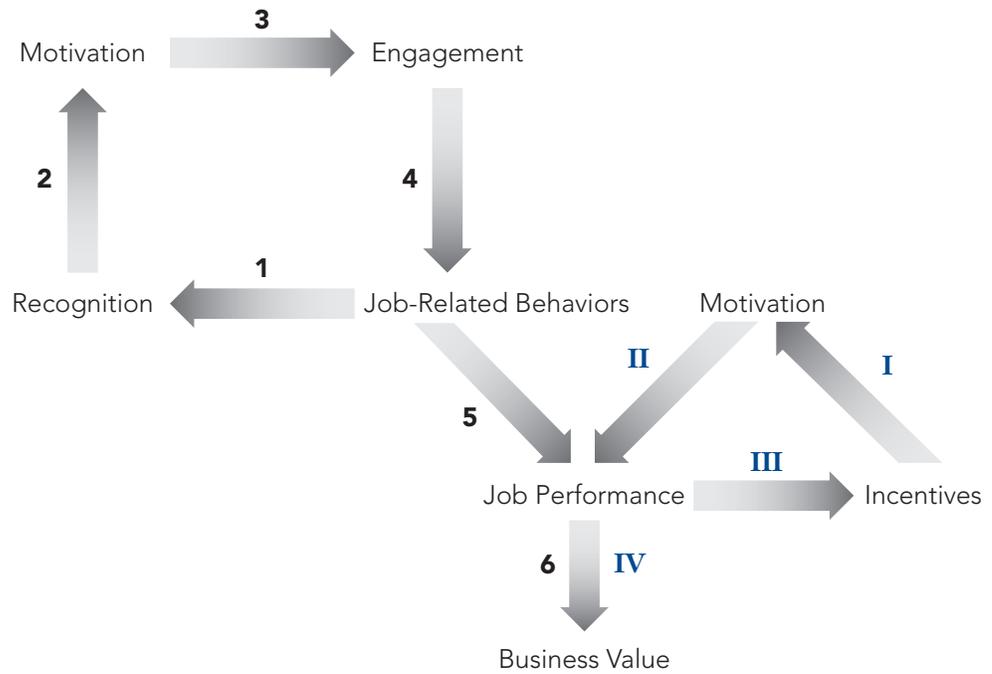
1. To provide an incentive for the individual to reach a particular performance goal, or
2. To recognize a worker whose behavior demonstrates a cultural value or has resulted

in a significant achievement—knowing that this will reinforce the behavior, meet the important human need to be appreciated and convey the behavior's value to the organization.

At first glance, the two approaches above may seem similar. However, the first reason, incentive, focuses on meeting pre-determined goals and is often considered part of the employee's compensation package (for example, a bonus for meeting sales quotas). In contrast, the second reason recognizes workers whose behavior has added value to the organization in (frequently) non-predetermined ways. Ideally, increased recognition will increase an organization's employee engagement/ motivation and, as the data in the next section shows, have a positive effect on organizational performance. If managers have properly aligned individual worker job performance with business strategy, the ultimate result of incentives and/or recognition should be an increase in business value—in quantity and/or quality of goods or services.

But do incentives and recognition have the same affect on worker performance? **Figure 3** describes a simple system model showing the various ways that recognition and incentives affect job performance—and is based on what the studies in the next section tell us about how organizations implement recognition and incentive programs, as well as the results they achieve.

Figure 3. The Recognition—Behavior—Performance Relationship



This model highlights several key differences between recognition and incentive programs. In addition, it shows some specific aspects of recognition programs that help us explain why most organizations fail to adequately measure the impact of recognition on job performance:

- **Incentives** are linked directly to job performance. That is, they are established to motivate workers to achieve a pre-determined level of job performance. If workers behave rationally (in the classical “Adam Smith” capitalist sense) they will only improve their performance to the level necessary to obtain the incentive. To further increase job performance, new incentives must be offered—increasing the cost of the program.
- **Recognition** rewards behaviors that are linked to organizational culture, job performance and business value after the behaviors are expressed. It is not dependent on achieving a pre-determined level of job performance. Recognition programs aim to increase both employee motivation and engagement so employees will sustain and increase the expression of behaviors linked to job performance.

- **Positive Feedback** exists in the well-designed recognition program that is not found in an incentive program—meaning that there is the potential for significant long-term increases in job performance from ongoing recognition programs. Positive feedback occurs when two or more system components in a system are linked and when an increase in any one component increases the other(s). (See Skyttner, 2005). In our system model, this means that increases in the expression of positive job behaviors will increase the amount of recognition received, which then increases motivation/engagement which, in turn, further increases the expression of positive job behaviors (the 1—2—3—4—1 loop in Figure 3). In theory, this can result in job performance reaching an optimal point based on an individual worker’s maximum level of motivation/engagement and job skill/ability (not pictured in Figure 3)—as long as recognition is frequently and correctly given. Later in the report we will examine both the degree to which current research supports this hypothesis, as well as what type of future studies are needed to confirm it.

- Indirect Link between recognition and job performance is the primary reason why the value of recognition programs is often underappreciated and, usually, not measured. The well-designed recognition program aims to improve organizational culture and individual workers' behaviors. While the ultimate *long-term* result may be optimal job performance and business value, these could require several cycles of the positive feedback loop to achieve. In contrast, the short-term results of an incentive program—the benefit of increased short-term performance minus the cost of the incentive—can be quicker and easier to measure.

Finally, as Figure 3 shows, the other part of job performance is an individual's job skill or ability. Most recognition programs are designed to increase the motivation/engagement part of the above system—so that workers perform as near as possible to their current ability level. However, many organizations do use increased development and learning opportunities as one possible recognition award—allowing them to positively influence both the motivation and skill/ability components of job performance:

Performance = Motivation X Skill.

Motivation, especially as it is linked to performance in the classroom or the workplace is a rich source of study by psychologists, sociologists, economists and educators. It is also a source of a diverse body of theories that attempt to explain what it is, as well as a source of controversy on the best way to tap it. The latter arises from the long-standing debate on the impact of external rewards on intrinsic motivation. There are two main camps in this debate: 1) those that believe that external rewards can actually decrease an individual's intrinsic motivation to perform and 2) those who believe that external rewards can have a positive or, at worst, no negative effect on intrinsic motivation. We discuss this debate and, in particular, how it relates to recognition programs briefly in the next section and in more detail in Appendix 1. However, this debate may well be a "red herring" for the application of recognition programs. In fact, there appear to be many critical areas of agreement among scholars studying motivation, as well as those working to apply its concepts to workforce performance.

Measuring the Value of Recognition

There has long been disagreement on extrinsic reward programs' effects on intrinsic motivation, or an individual's desire to perform a task for its own sake. This issue is relevant to recognition programs if or when:

- The form of the award (for example, tangible versus verbal recognition) decreases long-term performance, or
- The work of high performers is adversely affected by external reward programs.

Several researchers have argued that the expectation of rewards for performance will decrease the intrinsic motivation to perform under some circumstances such as the use of tangible rewards and, possibly, when specific performance goals are not explicit (Deci, 1971, 1976; Deci et al., 1975; Deci et al., 1989; Deci et al., 1999; Frey, 1997; Gagne & Deci, 2005). An example of such research is a field experiment conducted on entry-level workers at a North Carolina state hospital (Jordan 1986, see the sidebar). In contrast, others have argued that the weight of evidence indicates that, in most cases relevant to the workplace, extrinsic rewards either have no negative impact on intrinsic motivation or the negative impact is seen only

in situations unlikely to occur during work-related activities (Cameron and Pierce, 1994; Eisenberger and Cameron, 1996; Cameron, et al, 2001; Cameron et al, 2005). See Appendix I for a more detailed discussion of this debate and what it may mean for work motivation in general and recognition programs in particular.

While it is important to consider the possibility that a few types of reward programs may backfire when it comes to building on the intrinsic motivation of some workers, it is critical that the potential adverse impacts are seen in context of an organization's total reward program. First, few, if any, studies have looked at the effect of non-cash recognition programs on increasing intrinsic motivation. Even Deci agrees that his work tends to show that *verbal recognition* (as opposed to tangible incentives) can *increase* intrinsic motivation with resulting increases in performance (Deci, 1971; Deci et al., 1999). In addition, intrinsic motivation may not be a significant factor in most workplaces. For most workers, their jobs are not activities that they would do without reward (the definition of intrinsic motivation) and, therefore, it is the relationship of extrinsic motivators (e.g., rewards) that will be most important.

Can External Rewards Decrease Intrinsic Motivation?

Jordan's 1986 work, designed to test Deci's hypothesis, divided workers into two groups:

1. Rewards contingent upon individual performance, and
2. Rewards not contingent upon individual performance.

Jordan conducted a survey to measure changes in intrinsic motivation was conducted at the start of the incentive program and three-and-a-half months into the program. He found two statistically significant results:

1. Subjects in the "Rewards contingent upon individual performance" group showed a small, but significant, decrease in intrinsic motivation.
2. Subjects in the "Rewards not contingent upon individual performance group showed a small, but significant, increase in intrinsic motivation.

Jordan was quick to point out the limitations of his study—for example, effects of other, uncontrolled variables and limitation of the study to a particular level of worker at one state run hospital. However, the study does point out that, if the goal of a reward (recognition) program is to increase workers' intrinsic motivation, simply linking rewards with performance may not be the answer.

The remainder of this section outlines critical findings of major studies that have examined the link between recognition, motivation, job performance, and business value. Each study's discussion begins with a short description of how *recognition* was dealt with in the study—for example, were specific types of recognition programs identified and measured, or was the treatment limited to the comparison of organizations with and without any type of self-identified recognition program? Studies that explicitly measured the effect of recognition programs on some aspect of business value, as well as the method(s) used to measure business value, are noted.

Kanungo and Mendonca: 1988

Synopsis

Analyzed all components of a total reward package in one California organization, including compensation and tangible and non-tangible non-compensation components. "Recognition" was included and considered a non-tangible reward.

Measured business value achieved by each reward, indirectly and qualitatively, by a comparison of the organization's expected effectiveness (for each reward) and the actual effectiveness of each component (as determined by employee survey).

As many of the studies that we review in this report make clear, the measurement of the cost and, in particular, the benefits (the increase in job performance) resulting from reward programs in general and recognition programs in particular are not universally conducted—in fact, a number of studies show that only a minority of organizations measure the ROI of their recognition programs. This seems strange until one explores the history of the concept of how rewards are linked to motivation and job performance.

The Kanungo and Mendonca study provides a relevant review of prior thinking and application of rewards to increase performance. In addition, it describes an early attempt at measuring both cost and benefits for one organization's total

reward program. As such, it sets the stage for subsequent studies and applications.

Kanungo and Mendonca studied the influence of changing views of intrinsic and extrinsic rewards' relative impact on work performance (Kanungo and Mendonca, 1988). As of the study's completion in the late 1980s, the researchers contended that managers would routinely conduct cost/benefit analysis (for example, ROI) on an organization's capital and operating expenditures, but not on compensation packages—despite the fact that compensational packages usually make up between 50% to 80% of an organization's total cost.

Why this lack of concern over measuring the effects of compensation packages? According to Kanungo and Mendonca, the reason can be traced to behavioral theories, developed after WWII, of the effects of intrinsic and extrinsic rewards on performance. These theories, supported by a body of empirical research compiled mostly from laboratory studies, contended that intrinsic rewards (such as increased responsibility, autonomy, and feelings of accomplishment) were the real motivators of work performance. Extrinsic rewards (pay, benefits, working conditions, and so on) were believed necessary to prevent job dissatisfaction, but had no measurable effect on increasing motivation or performance. This thinking became the dominant workforce management paradigm for decades, and managers came to believe that there was no reason to measure the ROI for any extrinsic reward system, including compensation packages, benefits, or some other form of tangible rewards.

This development's practical result convinced managers that they could increase performance only by providing workers with "intrinsic rewards through job redesign to include more responsibility, more autonomy, and more control" (Kanungo and Mendonca 1988). The researchers offered two critiques of this approach:

- It led otherwise results-oriented managers to become "apathetic" to a major organizational expense, and

- The focus on the intrinsic-extrinsic distinction ignored the fact that, regardless of whether rewards are intrinsic or extrinsic, they will be effective work motivators *only* if they are *valued* by an individual and *expected* to be received as a consequence of a behavior linked to increased job performance.

In an attempt to move organizations away from the intrinsic-extrinsic focus and toward the actual measurement of effects of any aspect of the total reward package, Kanungo and Mendonca offered an alternative approach, based on the expectancy theory of motivation. It relies on the following concepts:

- Individuals will perform if they believe that they have the necessary skill or ability.
- Workers must believe that rewards are contingent on performance.
- Workers must value the rewards.
- A reward must be salient—that is, the reward must be uppermost in the worker’s mind to significantly affect work motivation.

Kanungo and Mendonca tested the generality, and practicality, of the above approach with two separate empirical studies. The first sought to understand how workers perceived 48 different work rewards that included a mix of intrinsic and extrinsic rewards. They found that workers perceived rewards along three distinct dimensions: by the contingency to performance, value, and salience of the reward; by whether the rewards are intrinsic (self-administered); by rewards’ frequency and whether receiving them is not contingent to performance. A key finding emerged: The first dimension, the one explicitly linked to expectancy theory, was the most important dimension for explaining worker perceptions of rewards.

The researchers then developed an “action program” of how to develop and measure the effectiveness of reward programs:

- Step 1—Develop a list of all rewards the organization offers its employees.
- Step 2—Decide on the purpose of each reward.
- Step 3—Conduct a survey of workers to find out how they perceive each reward.

Step 4—Examine the survey’s findings and investigate those rewards where the workers’ and the organization’s perception of the performance contingency, value, and saliency differ.

Step 5—Review, then reformulate and/or redesign the reward system in light of steps 1–4. This can include changing reward programs to increase the contingency, value, and/or saliency of the program for workers (fixing problems Step 3), developing better ways to communicate the various reward programs’ purposes, (fixing problems Step 2), or redesigning the mix of programs in the total reward package (fixing problems Step 1).

To test their action program, Kanungo and Mendonca examined the effectiveness of the reward program for a group of senior managers at a Canadian corporation. For each of the 25 rewards the corporation used (ranging from pay to non-compensation rewards such as participation in decision-making and, notably for this report, recognition) the researchers compared perceptions of the corporation’s compensation specialist with a survey of workers. Specifically, the compensation specialist was asked, and workers were surveyed about:

- The importance of the reward for improving retention, performance and development (growth).
- The level of value and awareness (salience) of the rewards.

Organizational and worker scores were calculated for contingency, saliency, value, and intended effect (for the organization) and actual effectiveness (for workers), then placed on the same scale for comparison. Inclusion of the relative cost of each program (that is, percentage of the total reward package) was critical to the analysis: For the organization, this meant that the performance contingency value was weighted by the cost of the program, with the more costly programs presumably linked to a higher organizational intended effect. But did the actual effect of each reward program measure up to what was intended?

Only three of the 25 programs delivered an actual effect *higher* than the intended effect:

- Pay—the prime reward involving money or in-kind payments
- Personal challenge—a non-tangible reward
- Participation in decision-making—a non-tangible reward

The three above rewards' higher motivational effects can be traced to workers ranking their reward contingency higher than the organization did, providing an ROI (in qualitative terms, at least) higher than expected. However, for the other 22 rewards (including "Recognition"), the actual effect on workers was *lower* than the organization's intended effect. For these programs, Kanungo and Mendonca's action plan called for modification so that the actual effect (that is, the benefit gained by the organization) could be increased.

This study highlights several critical elements of both the implementation and evaluation of reward programs, including those associated with recognition, that are supported by more recent studies and that should form the basis for current studies and applications.

First, it cannot be assumed that any part of a total reward program is having the effect intended by management. This needs to be confirmed by measuring the program's *actual* effects. Kanungo and Mendonca did this by measuring workers' perceptions of the reward effects. While surveying worker attitudes about their perceptions is important, it does not measure actual gains in performance. As the case studies highlighted in this report show, improvements in performance (financial or otherwise) achieved after the implementation of a rewards program can be measured, even if most organizations currently don't do so.

Second, non-cash rewards are important to workers and will result in increased motivation and performance. While pay had the largest actual effect of all rewards—and an effect far greater than the organization's intended one), two non-tangible rewards were the only other two reward programs in which the actual effect exceeded the intended effect.

Unlike Kanungo and Mendonca's 1988 work, most major studies exploring the link between recognition (and other components of the total reward package) and business value have not looked in-depth at one organization. During the last decade many survey-based studies of various numbers of organizations have emerged, with the objectives of determining the levels of employee engagement among organizations, how those levels are changed by talent management practices (including recognition) and, in many cases, whether differing levels of employee engagement and/or the use of recognition correlates with improved business value.

Gallup Research: 1999 to Present

Synopsis

A series of large-scale internal surveys (some aimed at a range of specific industry types) determined the extent of use of 12 managerial tools that previous Gallup research determined were most highly correlated to positive employee engagement. One of the 12 was frequent recognition.

Estimates (for each organization surveyed) of productivity, employee turnover, profit, and customer satisfaction measured business value quantitatively. Researchers then determined the amount of correlation between level of employee engagement tools and business value.

For more than 30 years, the Gallup organization has worked to measure the changing levels of employee engagement, as well as to determine the key factors that managers can use to increase engagement. This research led Gallup to develop the Q12: "a 12-item survey designed to measure employee engagement" (GMJ 2006). Survey items are in the form of questions that employees respond to on a "strongly agree" to "strongly disagree" scale. The focus is on aspects of talent management under a manager's control, including pay. The survey includes the statement, "In the last seven days, I have received recognition or praise for doing good work" (Harter et al. 2002). This wording is critical, for it highlights two key findings of Gallup's 30 years of work: that recognition and

praise are drivers of employee engagement, and that recognition works best when offered frequently. In this report's examples of effective recognition programs, one key principle that clearly emerges is that the best programs are those combining formal and informal recognition, and providing them frequently, thereby creating a culture of recognition that better motivates people to increase their performance.

Gallup also conducted several meta-analysis (statistical analysis of many independent studies) surveys across several types of industries and among separate business units within organizations. Gallup found that only 29% of workers, as of their 2004 survey, are "engaged," while 54% are "not engaged" and 17% are "actively disengaged."³ Gallup estimates the cost of this disengagement to the national economy at \$300 billion a year.

In contrast, business units within organizations with higher-than-average levels of engagement (defined here as in the top quartile of all 12 engagement responses) find success at four distinct types of business outcomes (in comparison with business units in the bottom 25%):

Productivity—50% higher success rate

Employee Turnover—13% higher success rate (less turnover)

Profit—44% higher success rate

Customer Satisfaction—50% higher success rate.⁴

Watson Wyatt—2001/2002 Study: The Business Case for Superior People Management

Synopsis

Calculated composite "Human Capital Index (HCI) Scores" based on multiple HR practices for more than 2,000 companies.

Change in HCI Scores from 1996 to 2001 correlated to company's financial performance (total returns to shareholder).

The results of Watson Wyatt's HCI study clearly show that better human capital management (as measured by a composite HCI Score) correlates to improved financial performance:

- Low-HCI companies
21% total return on shareholder value
- Medium-HCI companies
39% total return on shareholder value
- High-HCI companies
64% total return on shareholder value.

While recognition was not a specific talent management strategy highlighted, the study did show that improvements in practices related to "Total Rewards & Accountability" (one of five categories of practices making up the HCI Score) produced the largest gains in financial performance.

Companies making significant improvements in this category increased financial performance by 16.5%, primarily through improving benefits (a 7.3% gain), linking pay to performance (a 6.3% gain), and establishing a better linkage of performance with promotion, development, and terminating "chronic nonperformers."

The lack of mention of "recognition" in this study highlights the fact that the importance of recognition programs as a formal part of talent management is relatively new. Regardless, this study demonstrates that improving talent management can produce measurable gains in business value, and that the major tool for these gains is through better application of the total reward package.

³ The level of engagement estimated by this Gallup survey is greater than the 11% "commitment" level found by the Corporate Leadership Council (CLC) discussed at the beginning of this report and, again in subsequent pages. This difference is due most likely to variation in the wording of the questions: for example, the 11% in the CLC study represented highly engaged individuals, while the Gallup study allowed for a broader level of engagement. Regardless, the two studies do agree that the vast majority of workers are not highly engaged with their jobs.

⁴ For a detailed explanation of how the analysis comparing employee engagement levels with business success was determined, see Harter et. al. 2002.

Incentive Research Foundation (IRF)—Incentives, Motivation and Workplace Performance Research & Best Practices, 2002. (Stolovitch et. al, 2002)

Synopsis

Meta-analysis of 45 research studies (and follow-up survey of organizations) determined the link between categories of tangible and non-tangible incentives and job performance.

Business value was not directly measured but was implied from increases in individual and team job performance.

Study shows how *recognition* was frequently grouped with *incentives* in early studies of the affects of rewards on performance.

This study consisted of a meta-analysis of 45 previous peer-reviewed research studies (conducted between 1965 and 1998) examining the link between incentives, motivation and job performance. It is important to note that *recognition programs* were not included in the analysis as a specific type of reward system because, as the authors noted, as of 2002 “no research experiments offered usable data on recognition” (Stolovitch et. al, 2002). Instead, recognition was considered as a type of non-tangible *incentive* and not as a separate component in the total reward package.

Importantly, the authors concluded that the effects of non-tangible incentives in general, and recognition in particular, required more research — some of which has been conducted more recently and is summarized below.⁵ We mention this study to show how recognition was often grouped with incentives as recently as 2002, both by organizations implementing programs and by researchers studying them. In fact, as other studies summarized in this section show, recognition programs can and should be treated as a separate component of the total reward package and, when done so, show a highly significant positive effect on job performance (through the recognition—motivation/engagement—job performance system discussed in a prior section).

⁵ The authors found no evidence to support the impact of intangible incentives – including recognition or employee of the month. However, as noted in the text, they did not consider the possibility that recognition could be linked to tangible rewards. In addition, as discussed in a previous section, employee of the month and similar types of awards (the type they examined) are more likely to affect retention of employees and not performance.

Incentive Federation Inc.: 2003

Synopsis

Recognition programs treated as one of many non-compensation reward programs. No specific type of recognition program mentioned.

Business cost of programs measured by cost of rewards used. No measure of increased business value reported.

In 2003 the Incentive Federation Inc. commissioned a survey of 540 business executives whose organizations currently used merchandise and travel rewards to increase work motivation (Estell 2003). This study found that reward programs could be divided into two groups based on their objectives:

- Consumer promotions, sales incentives, and dealer incentives used to increase or maintain sales, increase market share, and/or build customer loyalty, and
- Non-sales programs (including recognition programs) used to improve morale, employee loyalty, and teamwork (that is, employee engagement).

A large majority (73%) of survey respondents chose “build morale” as a reason for implementing non-sales (for example, recognition) programs, while another 60% also chose “build employee loyalty/trust.” This shows that organizations in this study used recognition programs to affect positive job behaviors, a critical part of the recognition—behavior—job performance system that we discussed previously.

In addition, there was a major difference in cost between surveyed incentive and recognition programs, with those recognition programs designed to increase motivation having significantly lower costs than incentive programs:

Average cost per person of travel awards for program type	
■ Sales incentives	\$1,473
■ Dealer incentives	\$1,467
■ Non-sales recognition/motivation	\$980

Taken together, these two findings indicate that the surveyed organizations understood that recognition was not only a cost-effective tool to motivate workers, but an effective tool to positively affect the very behaviors most likely to be linked to improved job performance.

More than half (57%) of respondents also agreed that most of their employees considered cash bonuses to be part of their compensation package and, as such, cash has less impact on increasing "employee morale" or loyalty than merchandise and travel awards.

Finally, the lower cost of non-sales recognition/motivation programs can prove extremely valuable to organizations in tough economic times. Even in 2003, study respondents reported becoming increasingly "cost conscious" about reward programs.

Corporate Leadership Council (CLC): 2004

Synopsis

Various aspects of recognition and rewards were shown to be among top "levers" that an organization and/or individual managers may use to increase employee engagement. Specific types of recognition programs are not identified.

Demonstrated a significant link between increased employee engagement and individual job performance.

A 2004 CLC study surveyed more than 50,000 staff, managers, and executives from 59 different organizations, working in 27 countries and representing 10 different industries. Previously, we discussed the CLC study's initial finding

that increasing an employee's engagement can improve their job performance score by as much as 20 percentile points. The study was designed to discover the key "levers" that best increase employee engagement and, through that, increase both performance and retention (CLC 2004).

It identified top levers (out of 300 potentials) for increasing workers' discretionary efforts and "intent to stay." These top levers were associated with six categories of organizational talent practices: Organizational culture and performance, manager characteristics, learning and development opportunities, day-to-day work characteristics, areas of onboarding focus, and senior executive team qualities. "Recognition and Equity" and "Recognizes and Rewards Achievement" were among the top levers (across all six talent categories) for determining higher-than-average retention rates. In addition, "Recognizes and Rewards Achievement" was also one of managers' top rated tools for increasing discretionary effort from workers.

The CLC study demonstrates that employee engagement can be increased in many ways, including the creation of a recognition culture in the organization. It is important to note that this study looked at the general features of an organization's workplace culture, not the specific programs or tools that create that culture. If recognition is thought of as a tool, and not just a cultural attribute of a specific workplace, it is easy to envision recognition programs being used to reinforce and strengthen each of the key workplace cultures listed above. This again points to the need for more careful research on how a "culture of recognition" improves employee engagement and performance.⁶

⁶ The CLC's conclusion that employee engagement is critical to an organization's bottom line is supported by a 2006 finding by the Russell Investment Group, which found that, on average, the members of the Fortune magazine's "100 Best Companies to Work For" had achieved a 200.6% cumulative return on profits from 1998-2005 compared to an average of 45.6% for the S&P 500.

Towers Perrin Global Workforce Study: 2007–2008

Synopsis

Surveyed 90,000 workers in 18 countries on various workplace issues, including the level of engagement that workers felt with their work and organization.

Correlation of engagement levels with organizations' financial data showed that organizations with high engagement levels had strong positive financial results, while those with low engagement levels had negative financial results.

Whether motivation is intrinsic or extrinsic, there is little doubt that rewards can be used to increase motivation and improve engagement between workers and their jobs. In turn, the organization benefits from increased value. Towers Perrin's 2007-2008 Global Workforce Study, which surveyed 90,000 employees in 18 countries about a range of topics, including the factors that drive their engagement with their work, confirms this point.

When researchers compared survey results with financial data of the surveyed organizations, they found that companies with high employee engagement had a 19% increase in operating income and a 28% increase in earnings per share. In contrast, companies with poor employee engagement scores had declining operating incomes and an 11% drop in earnings per share. (These results corroborate the

CLC and Gallup studies showing a link between higher employee engagement levels and increased business value.) Most important for this report, the Towers Perrin study also showed that workers in organizations with higher business value were significantly more likely (68%, versus 49% for underachieving organizations) to agree that their "immediate manager recognizes and appreciates good work."

Human Capital Institute (HCI) and IBM Talent Management Study: 2008

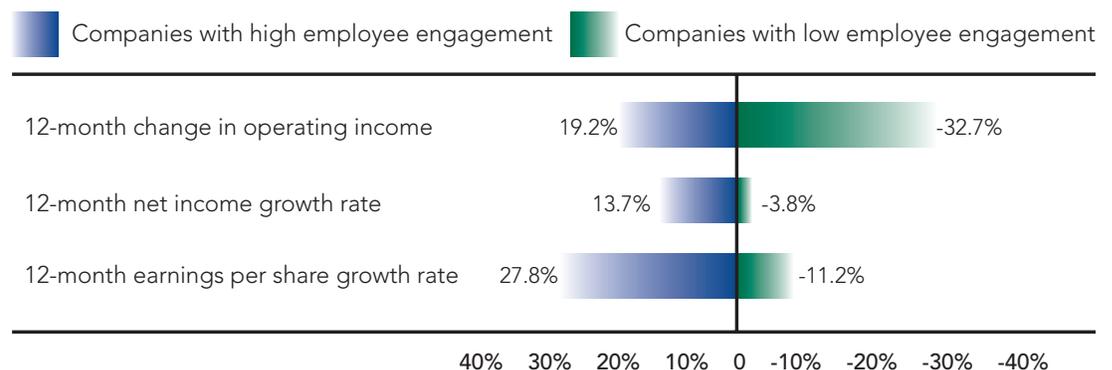
Synopsis

Surveyed 289 U.S. publicly traded companies on level of implementation and/or effectiveness of 30 talent management practices, including several related to building employee engagement and providing incentives.

Correlations of survey findings and financial performance showed that an increased focus on building employee engagement and aligning incentives with business strategy was most important in separating financial over-performers from underperformers.

Another recent study by HCI and IBM supports the correlation between employee engagement and financial success. In this study, 1,900 respondents from various industry types were surveyed and asked to evaluate the full range of their organization's talent management processes, including a series of questions dealing with motivation and development. In addition, researchers collected financial data

How Engagement Affects Financial Performance—One-Year Study



—Towers Perrin Global Workforce Study 2007–2008

for a subset of the surveyed organizations (289 publicly traded U.S. companies) to determine possible correlations between financial success and improved talent management. Companies were categorized as over-performers and under-performers—those above the median for net change in operating profits from 2003 to 2006 and those below the median, respectively.

Of the 30 talent management practices surveyed, two in particular—engagement and incentives—were found to separate financial over-performers from under-performers. In fact, about twice as many over-performers than under-performers strongly agreed that their organizations were focused on two key practices:

- Understanding and addressing workforce attitudes and engagement, and
- Aligning employee and workgroup incentives with appropriate business goals.

Watson Wyatt 2008/2009 Global Strategic Rewards Report—The Power of Integrated Reward and Talent Management: 2009

Synopsis

Survey, conducted in May 2008, measured 1,389 organizations in 24 countries on the level of integration between rewards and talent management.

Correlated survey results with organizations' financial performance to distinguish between high-performing and low-performing organizations.

There is an important difference between this study and the 2001/2002 Watson Wyatt research discussed previously: The deployment of "recognition programs" is considered one of the nine distinguishing elements of an integrated reward and talent management system, with another

being the linkage of individual and organization results to rewards (a major theme in this report).⁷

Specifically, Watson Wyatt found that companies employing a majority of these nine tools can expect the following results:

- 20% less likelihood than other companies to experience problems attracting, and 33% less problems retaining, critical-skill employees.
- 25% less likelihood to have problems attracting, and 18% less problems retaining, top-performing employees.
- 18% greater likelihood to be a financially high-performing company.

WorldatWork—2008

Synopsis

Surveyed 554 HR professionals to determine the extent and types of recognition programs used. 89% of organizations surveyed had implemented some form of recognition program with "length of service" being the most common, followed by "above and beyond performance."

Results reported that only 8% of organizations measure any form of ROI of recognition programs, but the study did not determine if ROI was higher for particular types of recognition programs that are measured.

Based on a survey of 554 HR professionals, conducted in December 2007 and early 2008, WorldatWork reported on current trends in employee recognition. The organization found that, as in earlier surveys conducted in 2002, 2003, and 2005, employee recognition programs are still common, with 89% of surveyed organizations stating that they had employee recognition programs in place. (This percentage is the same as that found in the 2005 survey, which was slightly greater than findings in 2002 [84%] and 2003 [87%]). These findings indicate both a high

⁷ Watson Wyatt considered the effective utilization of a majority of the following nine practices to be a sign of an integrated reward and talent management system: 1) Defining an organization-wide employee value proposition (EVP) for attraction, retention, pay and talent management; 2) Managing and designing programs according to an organization-wide total rewards philosophy; 3) Performing formal workforce planning activities that optimize the supply of talent versus demand; 4) Leveraging competency models across recruiting, career management and pay activities; 5) Facilitating healthy work/life balance and taking measures to moderate employees' levels of work-related stress; 6) Linking employee performance goals to the business, and effectively communicating performance expectations and results to employees; 7) Leveraging total cash rewards through differentiation of merit increases and annual incentive awards; 8) Linking individual and organizational results to rewards; and 9) Effectively deploying recognition programs.

level of use of employee recognition programs; as well as the fact that the adoption of programs by today's organizations is stabilizing.

Respondents described the types of employee recognition study they use:

Length of service.....	86%
Above and beyond performance	79%
Peer to peer	42%
Retirement.....	41%
Sales performance	38%
Employee of the year, month, and so on...	32%
Programs to motivate specific behaviors...	25%
Safety performance	25%
Suggestions/ideas	24%
Major family event	19%
Attendance.....	16%

These results clearly show that "Length of service" and "Above and beyond performance" are the two most-often used employee recognition programs. They also demonstrate that many organizations have implemented multiple types of recognition programs beyond those two. This is important because, as discussed earlier, other research has shown that an integrated employee recognition system, comprised of different programs targeted for specific goals (for example, improved safety, increased performance or higher retention), is the best way to achieve measurable results. If increasing performance is the program goal, then "Length of service," which is linked to improving worker retention, not performance, is not the tool of choice. Organizations need to identify what they want to improve, then choose the recognition program best designed for that element of talent management or performance.

The survey also uncovered interesting facts regarding the integration of employee recognition programs with an organization's business strategy. Only 48% of organizations have a written strategy, as advocated by RPI's best practices, that outlines important factors such as why the programs were created and

what the program's goals are. This is troubling; it implies that there may well be a lack of clarity, both by program implementers and among employees, about what the programs are supposed to achieve—a key part of linking any employee recognition program with worker performance and increased value to the organization. In addition, the lack of a written strategy provides evidence that the employee recognition strategy may not be as well aligned with business strategy as surveys respondents believed—or, at least, that there is little in the way of evidence to support their belief. However, on a positive note, 96% of organizations with a written strategy believe that it is aligned with their business strategy.

The survey also shows that organizations give many different reasons why they have implemented a recognition program:

Create a positive work environment	77%
Motivate high performance	71%
Create a culture of recognition.....	69%
Recognize years of service	69%
Increase morale.....	68%
Reinforce desired behaviors	61%
Support organizational mission/values.....	55%
Increase retention or decrease turnover....	51%
Support becoming/remaining an employer of choice	43%
Encourage loyalty	42%
Provide line of sight to company goals	26%
Support a culture change.....	20%
Other.....	2%

The report also includes a snapshot of reward types used in today's recognition programs. The most popular recognition symbols include certificates and plaques, used by 78% of organizations, followed by cash bonuses, used by 60% of organizations. Gift certificates (51%) and company logo merchandise (46%) follow in popularity. Perhaps not surprising, given today's economy, travel rewards are only used by 15% of organizations, down from 21% in 2005.

The WorldatWork survey shows that recognition is most commonly given one-on-one by the employee's manager (63% of organizations), or presented at special events (57%) or at staff meetings (38%). Some organizations (28%) use an intranet announcement, while 8% mail the reward to the recipient.

Survey findings most relevant to this report relate to what was discovered about organizations' measurement of success of employee recognition programs. The study found that "employee satisfaction surveys" are the leading method, used by 43% of organizations. Other metrics used include numbers of nominations, turnover rate, usage rates, productivity, and customer surveys. **Only 8% of surveyed organizations use any form of ROI to measure the success of an employee recognition program. Additionally, 36% of organizations state that they do not measure the success of their programs.**

Survey findings also point to some current problems with effectively implementing recognition programs, namely the fact that 81% of organizations say that they do not have any formal training programs for managers on how to carry out the programs. This likely leads to inconsistently managed programs across organizational departments.

The studies summarized here provide a critical body of evidence demonstrating the link between recognition and employee engagement—and between employee engagement and various measures of job performance and/or business values. However, except for the WorldatWork study, these studies do not provide much evidence of the range of recognition programs used or of actual gains in business value that occur *after* a program implementation. In fact, as we discuss at the end of this report, the most urgent need in the study of the effects of recognition programs today are detailed studies: research along the lines of the studies linking employee engagement to financial performance that examines how the implementation of specific types of recognition programs affects various measures of job performance and organizational financial performance. Until those studies are conducted, what remains are descriptive examples of some real-world recognition programs, such as those in the next section, that provide only some of this needed information.

Case Studies: Using Recognition Programs to Improve Specific Business Functions

Scotiabank⁸

In 2007, Scotiabank (the Bank of Nova Scotia), a leading Canadian financial organization, received some recognition of their own when they were chosen the 2007 Best in Practice by RPI. The kernel of Scotiabank's success can be seen in the late 1990s, when most banks were focused on new technologies—particularly those related to customer self-service. Bucking this industry trend, Scotiabank chose to focus on personal customer service, instead placing an emphasis on excellent customer service by their employees. To help create this customer-centric business strategy, Scotiabank implemented an employee recognition program that differed markedly from its earlier incentive-based programs.

Scotiabank's original incentive plan failed to build the desired customer service culture because of several problems, both in the focus of the program and in how it was carried out. First, instead of being an integrated program consistently implemented across all departments, the original design utilized a mix of paper-based programs offered to workers simultaneously through regional divisions and functional areas. More important, instead of reinforcing desired customer service behaviors—by recognizing those workers who demonstrated those behaviors—the original program only rewarded improvements in specific lagging business indicators (for example, measured sales and financial results). While this provided readily measurable indicators for capturing the increase in program value, it was not the improved value (better customer relations) key to Scotiabank's business strategy. Even worse, most of the early program only rewarded managers and ignored

non-managerial staff—the very people with the most customer interaction.

Scotiabank, working with a marketing services firm, developed a new program with the intent of recognizing and rewarding their best employees and, at the same time, increasing the strength of customer relationships. The “Scotia Applause” program initially was implemented in the division with the most customer interaction, the bank's retail branch network. Instead of being made up of many separate programs, each with a different focus, Scotia Applause is a web-based program integrated across all job levels—and with the single focus of improving customer service by recognizing and rewarding relationship -building behaviors.⁹

The new program did not take the place of, or duplicate, performance-based compensation programs. Instead, it intends to use a new set of quantitative and qualitative metrics to measure the achievement in building a better customer service environment. These metrics include participation measures:

- Program participation and registration percentages
- Traffic onto the program website
- Reward ordering
- Redemption analysis
- Most important, behavioral analysis of engaged and disengaged program participants at specific periods of time.

This last participation metric, conducted in part through employee surveys, is linked to customer satisfaction surveys, which for a program designed to improve customer relations, is the

⁸ From: *Scotiabank – Realigning Employee Recognition to Business Strategy Reaps Measurable Rewards*, Recognition Professional International White Paper, 2007 Best Practice, Best in Class Recipient.

⁹ The program consists of a combination of individual and team recognition through a four-tiered program with daily, monthly, quarterly, and annual performance recognitions, goals, and evaluations. The program rewards points that can be redeemed for a wide variety of gifts, with the intent that everyone will find something of value.

bottom-line measurement of program success. A 2005 Scotiabank study showed high positive correlation between high levels of participation in the recognition program, high employee satisfaction scores, and high customer loyalty scores. This correlation metric is Scotiabank's method of estimating ROI for the program and exemplifies the importance of tailoring the method of capturing value returned to the organizational goals for the program. For while the metric does not provide an explicit cost/benefit measurement (as is common for ROI), it does measure how strongly participation in the program is linked to improving long-term customer loyalty: the overriding purpose of the program.¹⁰ Ideally, in the future, Scotiabank will be able to quantify how much better customer relations are impacting the bank's financial bottom line as well.

Delta Airlines¹¹

"If we take care of our employees, they will take care of our customers"

—C. E. Woolman, founder of Delta Airlines

Delta Airlines, like Scotiabank and other organizations, has had many recognition and rewards programs over the years. However, like earlier incarnations, they were a mix of formal and informal programs, fragmented across worker type and organizational divisions, and most critically, not aligned with the company's business strategy.

Delta created a new program, My Delta Rewards, that seeks to better integrate existing and new reward and recognition programs into one, branded program that drives measurable business results. My Delta Rewards is run on a

points-based internet performance platform accessible to all employees and includes:

- Length of Service Awards
- Retirement (personalized retirement awards)
- SPOT Recognition, awarded for "extra-mile" efforts
- An enterprise-wide program divided into two parts: Gaining Attitude and Community Engagement, a program that rewards workers for community volunteer involvement
- Business Unit Programs designed to drive new revenue, measurably cut costs, ensure compliance, and support other key business metrics
- Chairman's Club, which annually recognizes the top 102 employees based on determination and dedication

Delta's stated goal is to provide recognition in four performance categories that drive the company's strategy: cost savings, customer service, operational excellence, and revenue growth. In addition, one explicit objective of the program is to create a culture of recognition by ensuring that each employee is recognized at least four times a year.

According to the white paper written by Delta's vendor for recognition programs since 2007, Delta extensively tracks the use of their rewards and recognition system. Also, unlike the majority of organizations (as reported in the 2008 WorldatWork study discussed earlier), Delta says they measure the program's ROI via an analysis that combines data collected from the web-based platform with information from focus groups, surveys, and feedback. The white paper states that the resulting ROI reports documented a 564% return on investment for the recognition program.¹²

¹⁰Measures of customer loyalty and satisfaction are also key components of non-ROI measures of employee value, such as Value on Investment (VOI) and Employee Lifetime Value.

¹¹From Delta, 2008 RPI Best Practices Recipient, white paper published by Diamond H Recognition, 2008, and Stephanie Merchiere, "Giving Recognition a Lift," *HR Today*, September 2008..

¹²The Diamond H Recognition white paper does not discuss the time frame for the measured ROI or any other factors that may have influenced the estimate. Also, neither the data nor methodology used to calculate ROI is reported.

MGM¹³

In 2001, the Las Vegas-based MGM Grand began a major expansion of new properties. Leaders realized that managing this expansion would require an increase in employee engagement. To achieve this, the chosen primary method was to enhance the organization's employee recognition program.

At first, the recognition program was considered more of a gimmick, at least as viewed by workers, than a real method to increase employee engagement, job performance, or business value.

The new program design, and subsequent yearly modification, was created to align to business strategy. It began with senior leader buy-in as evidenced by the approval of a yearly budget of \$500,000. Major program elements include:

- Streamlining the MVP award to ensure that it promotes the core values and service-standards of customer service—the most important job performance in the hospitality industry
- Communicating new recognition program goals during managers' meetings and "preshifts," 10-15 minute sessions prior to the start of work in which managers provide face-to-face feedback, information, and recognition to "more than 9,200 employees by 700 supervisors and managers in more than 250 departments."
- Both tangible (gifts) and intangible (public recognition) recognition provided; together, they have little or no cost.
- Program success depends upon managers and supervisors providing frequent recognition to employees, **providing a concrete example of the results of the Gallup study discussed above.**

The importance of the recognition program to MGM is highlighted most clearly in the slot department. The recognition program motivated slot department workers to increase customer membership in the "slot club" from 1,052 in 2004 to 1,582 in 2005. This is but one example of financial gains achieved by the MGM Grand since the introduction of the recognition program. In fact, the organization has gone out of their way to measure potential gains in business value:

- Tracking individual productivity in each department.
- Employee satisfaction surveys that show an increase in overall employee satisfaction from 87.5% in 2004 to 90.3 in 2005.
- A 2006 turnover rate of only 11.4%—far less than the hospitality industry average.
- An increase in annual revenue from \$714 million in 2003 to more than \$1 billion in 2005.

As with most such case studies, it is impossible to preclude the possibility that some or all of the financial gains described above are due to factors other than the recognition program—for example, the operational expansion that motivated the enhancement in the recognition program in the first place. However, there is enough evidence of gains in employee engagement, not correlated to any changes in other aspects of the MGM's total reward package, to demonstrate the likelihood that the improved links within the "recognition/rewards—employee engagement—job performance—business value" system are at least among the potential causes of the financial gains, and certainly those links with the smallest investment.

¹³From Christi Gibson, "MGM Grand: How Employee Recognition Impacts the Bottom Line," *Workspan*, 2008.

It is important to note that these case studies come with their own limitations. They all are based, to varying degrees, on the organization's or recognition program vendor's description of their own program, implying a significant degree of subjectivity in the discussion of the program and its results. Also, none of the reports of ROI (or other measures of value gained) provide sufficient details on methodology or data to allow for independent confirmation of the claims. This speaks again for the need for verifiable, independently conducted research along the lines of the Kanungo and Mendonca (1988) study.

On a positive note, they show that many organizations are taking the lessons learned from the above studies seriously: in realizing the value of recognition programs, aligning them with business strategy, and attempting to measure the results. Finally, these case studies, and many other recent ones, represent real world "experiments" that bring the study of recognition and motivation out of the laboratory and into the workplace. Indeed, they show that organizations are now taking the first steps in measuring the effectiveness of various types of recognition and rewards on motivation, engagement, behavior, and job performance across the organization.

Conclusions: The Current State of and Future Needs for Studies into the Links between Recognition and Business Value

The major research studies that we discussed in this report provide a wealth of support for the connection between improved employee engagement and increased business value, measured in several different ways. Some of these studies also provide evidence that recognition is one method for increasing employee engagement. However, the studies also show the need for a body of data linking specific types of recognition programs with quantitative estimates of business value: This value is as likely to be non-financial value as it is to be financial, reinforcing the concept of VOI.

The major limitation that most past and current studies share, highlighted by Jordan, is the problem of confusing correlation with causality. Specifically, it is possible that organizations with high levels of employee engagement share other, unmeasured factors that cause increased employee engagement levels and improved business value.¹⁴

The factors above point to the need for further in-depth research, along the lines of Kanungo and Mendonca's study, and less dependence on surveys as the primary method of exploring the link between "Recognition—Motivation—Engagement—Individual Performance" and "Business Value." Fortunately, some of this much-needed evidence can be found in the results of recognition program implementation in actual organizations—when those results include some measure of business value. Those cases (highlighted in Case Studies within this report) can be treated as real-world "experiments," in which effects of specific types of newly implemented recognition programs are measured. For example, if a factory establishes a

recognition program to reinforce safe behaviors (and changes no other safety-related programs), and the actual number of accidents per employee (and related costs due to accidents) then drops, there would be strong evidence of a causal link between recognition and performance, as well as an excellent quantitative estimate of the ROI of the recognition program: $ROI = (\text{Benefit of program} - \text{Cost of program}) / \text{Cost of program}$, where the "Benefit of program" can be conservatively estimated as the estimated reduction in labor and operating costs resulting from the reduced number of accidents. As of now, there is mainly anecdotal evidence from in-house press releases and other related, non-rigorous reports by organizations of their own (or their clients') successes. A Gallup- or CLC-like study linking specific types of recognition programs with specific measures of the programs' success—across multiple organizations—would fulfill a need.

The need for these types of studies is beyond academic. Legal pressures (for example, the Sarbanes-Oxley Act of 2002) arising from bad or even unethical accounting has put pressure on managers and organizations to fully justify expenses. This pressure is even greater in today's economic environment, where costs need to be cut to protect dwindling profits. Talent management investments—including recognition programs—need to be justified by showing a positive ROI or some other measure of increased business value (Lallande 2008).

However, as the Towers Perrin 2008 study reviewed in this report points out, most companies that have implemented recognition programs do not measure the program's

¹⁴The 2001/2002 Watson Wyatt study that links changes in talent management with changes in financial performance over time is an example of a type of study that should be conducted. The limitation of that particular study, however, is that recognition in general, and recognition programs in particular, was not part of the analysis.

ROI—nor do they replace ROI with some other measure of business value. One problem Lallande points out is that it is easier to calculate the ROI of incentives than for recognition programs.¹⁵ Incentive programs usually have clear goals tied to specific rewards (e.g., 20% in sales = specific dollar value to company). In contrast, recognition programs are usually implemented to encourage particular behaviors that are considered important to business strategy—e.g., initiative, customer service, or safety. These behavioral changes will eventually affect an organization's financial success—but it may take more time and require individual and group behavioral change to reach a certain threshold. (Lallande, 2003).

The limitations of the traditional ROI method of assessing changes in business value, particularly as it relates to recognition programs, points to

the need for organizations to consider other methods of estimating the organizational pay-offs of recognition programs. This is particularly true since ROI is usually utilized for measuring short-term financial (tangible) benefits. In contrast, recognition programs are implemented to produce long-term behavioral changes that will eventually impact an organization's financial bottom line, but will also likely produce non-tangible benefits as well. Therefore, methods are needed to estimate the *value on investment* (VOI) of recognition programs, where VOI considers both financial and intangible benefits.

One approach, *Employee Lifetime Value* (see Appendix II), aims to capture the long-term value obtained from investing in workers—although tangibles measures of value (for example, measured increases in profits, customer satisfaction, etc) are still likely to be favored.

What Executives are Saying about the Problems of Measuring the ROI of Recognition (from Lallande, 2003)

Rajiv Burman, SPHIV vice president of human resources: While focus groups and surveys show that staff members appreciate the [recognition] programs, Burman considers this evidence anecdotal. *"We don't have hard data that say, 'This is the dollar amount that we're spending on awards and incentives, and this is the impact that it's having on performance. I have yet to solve the ROI issue.'"*

Bob Nelson, President of Nelson Motivation, Inc., *"believes 'years of service' awards can be counterproductive—92% of companies give them, spending millions of dollars—but, he believes, no worker is motivated to stay on their job longer to receive them."*

Mike Ward, regional vice president of sales at American Express Incentive Services (AEIS) in Fenton, Mo., *"estimates that companies spend 0.5 percent to 2 percent of total compensation on incentive and recognition programs."*

"Since it is such a small slice of a corporate budget, one practitioner wonders if calculating the ROI of this investment is worth the frustration," reports Lallande.

However, Christi L. Gibson, executive director at Recognition Professionals International, notes that in today's economy, 0.5 percent *"of payroll [an organization's largest cost] may make the difference between a red or a black bottom line."*

¹⁴Lallande provides the following step-by-step guidelines for calculating the ROI of incentives and awards – an approach that organizations can modify to use for recognition programs as well, if organizations can determine which measurable behaviors are affected by recognition: 1. Measure the baseline; 2. Determine what motivates employees; 3. Align those drivers the company's missions and objectives; 4. Look for hidden costs; 5. Track recognition and program participation; and 6. Quantify degree of movement from the baseline.

Another approach, the *Success Case Method* developed by Brinkerhoff, combines analysis of an organization's extreme groups (for example, the high-performers or highly intrinsically motivated workers versus low performers or unmotivated workers) with case studies and "story telling." The goal is to determine how well an organizational initiative, such as a recognition program, is working by comparing the two extreme groups through the use of a short survey. Follow-up evaluations of successful and unsuccessful workers result in "stories" used by managers and senior leaders to understand:

- Exactly how the worker used the initiative,
- What results were achieved due to the initiative,
- How valuable the results were (in dollars), and
- What the factors were that produced the link between the initiative (for example, the recognition program) and the gain in value (Brinkerhoff 2003; Brinkerhoff and Dressler 2002).

While this method cannot produce an accurate estimate of total financial gain from a recognition program, it has the advantage of providing details on how the program actually impacts the behaviors it is designed to effect, and of producing results that can be easily understood by all stakeholders in the program—in a form that can be used to improve or modify the program if necessary.

Finally, several recent white papers and trade journal articles point out the importance of using recognition systems and providing a checklist of key factors to consider when implementing a program. While these lists may differ in a few particulars, they share several common themes that are independent of the cost of the recognition program, including:

- The recognition should be in a form that is of actual value to the worker, not what the recognition committee thinks the worker should value.
- Provide a choice to the worker on what is received to further increase the value to the individual.
- Deliver the recognition in the proper context. Present the recognition in a way that increases the value to the worker; whether that is through the person presenting the recognition, the audience witnessing the recognition, or other factors (Nelson 2008).

While recognition programs are just one method for increasing employee engagement, these programs are important for two main reasons:

- There is mounting evidence and examples of organizational impact, and
- They are much more cost-effective than most other elements (for example, base compensation) of a total reward strategy.

Appendix: Theories of Motivation

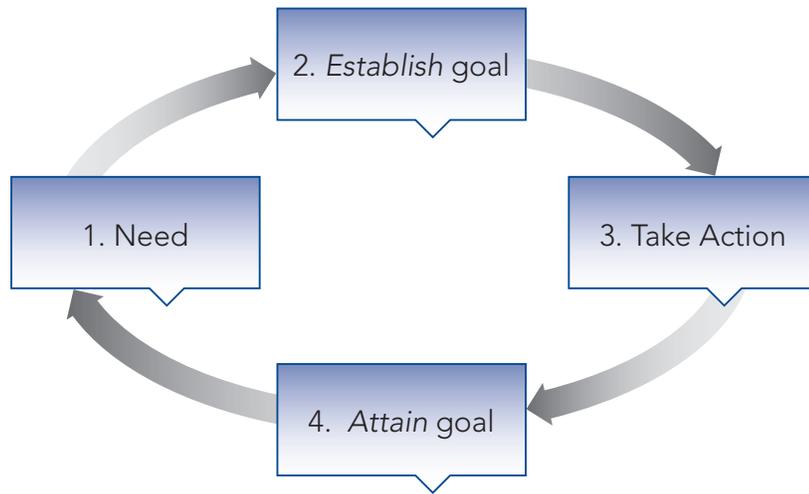


Figure 4. The process of motivation. (Mwita 2002; Armstrong 1993)

The process of motivation is simple and, for the most part, generally agreed upon. As Figure 4 shows, motivation starts with a *need* to achieve or obtain something, which leads to the establishment of *goals* for obtaining whatever is desired, and the use of specific *actions* or behaviors that are expected to achieve the goals. *If* the selected behavior successfully achieves the goal and satisfies the need, there likely will be reinforcement in which the same behaviors will be used the next time there is a similar need (Mwita 2002).

The ability to take effective action is highly dependent on an individual's ability and/or training. As mentioned earlier in this report, individual performance is dependent upon both motivation and skill: **Performance = Motivation X Skill**. No amount of motivation can overcome

the lack of skills necessary to complete the needed action. However, motivation may provide a reason for an individual to find ways to obtain the necessary skills.

Even the most skilled individuals likely will underperform if their levels of need/desire (that is, level of motivation) is low. Therefore, optimal performance will result when a high level of motivation is coupled with a high level of skill—for example, when workers are both energized and competent (see Table 1).

Some recognition programs will either reward workers for obtaining extra training (and skills) or use added developmental opportunities as one program reward, thereby positively influencing both the motivation and skills components of the total performance equation.

Table 1:

energized incompetence	energized competence
apathetic incompetence	apathetic competence

The study of motivation and how to increase it spans several scholarly fields including economics, sociology, social psychology, and cognitive neuroscience, as well as some very practical applications, particularly in education and human resource management. An extensive review of the various theories of motivation is outside the scope of this report. However, it is important to mention a few of the more important theories that form the basis of much of the current thinking of what types of rewards should be used (and how they should be used) to both increase motivation and link it to improved performance.

Expectancy theory (Vroom 1964) is one of the several process (or cognitive) theories of motivation and is most relevant for this report's purposes; it deals with how motivation is "affected by people's perceptions of their working environment and the ways in which they interpret and understand it" (Mwita 2002; 41). In addition, it is these process theories that surface, either explicitly or implicitly, in many of the justifications for specific types of worker incentive, reward, or recognition programs.

As originally formulated by Vroom, this theory includes three main motivational forces: *Valence* (value of potential outcomes), *Instrumentality* (correlation between improved performance and obtaining desired outcome), and *Expectancy* (the level of individual perception that increased effort will lead to increased job performance; for example, an individual's belief that he or she has the ability to improve his or her performance). Vroom (1964) defines the concept of expectancy in detail:

"Whenever an individual chooses between alternatives which involve uncertain outcomes, it seems clear that his behavior is affected not only by his preferences among these outcomes but also by the degree to which he believes these outcomes to be possible. Expectancy is defined as a momentary belief concerning the likelihood that

a particular act will be followed by a particular outcome. Expectancies may be described in terms of strength. Maximal strength is indicated by subjective certainty that the act will be followed by the outcome, while minimal (or zero) strength is indicated by subjective certainty that the act will not be followed by the outcome."

Expectancy theory plays a key role in the work of Kanungo and others, who use it as the basis for important models of how to turn motivation theory into practical reward programs.

Social Cognitive Theory (Bandura 1977, 1997) suggests that self-confidence is the key to providing an individual with the incentive to be proactive in performing tasks. There is considerable support for the role that self-efficacy plays in determining work performance, especially as it is "moderated by task complexity and locus of control" (Steers et al. 2004).

This theory is based on goal setting, in which individual performance is driven by "anticipatory estimates of what is necessary for goal attainment" (Latham and Pinder 2005). A key aspect of this theory is that a goal can initially increase performance before any feedback is given.

This theory is also related to goal setting theory in that both deal with the positive influence of setting a goal on improving performance (Locke 1968, 1996). Goal-setting theory does not use cognitive tools of individuals, estimating what is necessary to achieve a goal as a driver of performance. However, it is based on a considerable body of empirical work showing that goal specificity, goal difficulty, and goal commitment can all improve individual and team performance (Steers et al. 2004). Both social cognitive and goal-setting theories are tied deeply to the concept that leveraging "intrinsic" motivation is key to improving performance and have been integrated into many practical applications of using recognition to improve performance.

Content and Process Theories of Motivation¹⁶

Theoretical Base	Theoretical Explanation	Founders of the Theories	Managerial Application
Content	Focuses on factors within the person that energize, direct, sustain, and stop behavior. These factors can only be inferred.	<p>Maslow—five level need hierarchy</p> <p>Alderfer—three level hierarchy (ERG)</p> <p>Herzberg—two major factors called hygiene motivators</p> <p>McClelland—three learned needs acquired from culture: achievement, affiliation, & power</p>	Managers need to be aware of differences in needs, desires, and goals because each individual is unique in many ways.
Process	Describes, explains, and analyzes how behavior is energized, directed, sustained and stopped.	<p>Skinner—reinforcement theory concerned with the learning that occurs as a consequence of behavior</p> <p>Vroom—an expectancy theory of choices</p> <p>Adams—equity theory based on comparisons that an individual makes</p> <p>Locke—goal-setting theory that conscious goals and intentions are determinants of behavior</p>	Managers need to understand the process of motivation and how individuals make choices based on preferences, rewards, and accomplishments.

¹⁶Gibson, J. L., J. M. Ivancevich, and J. H. Donnelly Jr. Organizations. Boston: Irwin (1991).

Appendix II: The Future of Measuring the Business Value of Recognition

Employee Lifetime Value (ELTV)

From Frank Mulhern, *Employee Lifetime Value: Measuring the Long-Term Financial Contribution of Employees*. Forum for People Performance Management and Measurement Performance Improvement Council, December 2007.

“Employee lifetime value [ELTV] is a quantitative measure of the long-term financial contribution an employee makes to an organization.”

Today, the same physical tools needed to produce products or provide services are available to almost all companies, across all industries, from the smallest to the largest. People are what most differentiates competitors. The higher the value of a business's people, the higher the value of the business. This simple fact is even more important in today's competitive labor market, where an ever-increasing percentage of workers are retiring and taking their knowledge and skills with them. In their place, Generations X, while possessing a high level of critical skills necessary for today's (and tomorrow's) economy, is smaller, meaning increased competition for mid-career and new leadership talent and value in today's global marketplace.

Three resource types can be used to increase value and give an organization a competitive advantage:

1. Physical plant: plant, equipment, and capital;
2. Organizational value: structure, planning, controlling, and coordinating; and
3. Human value: skills, experience, and knowledge of workers (Mulhern, 2007).

While all three are important, Mulhern points out that regardless of what a company considers its strength, “competitive advantage and financial performance stem from the performance of people.” Ensuring that a performance management system—including one using recognition—is optimal requires the accurate measurement of both worker performance and the ultimate business value captured from that performance. A major purpose of this report is to explore if and how organizations that use recognition systems are measuring their effectiveness. This involves an understanding of the analytical tools available, as well as a determination of how well they are implemented.

The key distinction between ROI and ELTV, according to Mulhern, is that ROI measures the net *return* derived from dividing all cash in-flow by all expenditures (including salary, benefits, training, and so on). In contrast, the ELTV measures the value obtained for a particular *investment* in people and is designed to capture the long-term value of that investment. Since recognition programs are a form of investing in workers, and are frequently geared toward obtaining long-term behavioral changes, organizations should measure their effectiveness by measuring the lifetime value of that investment, not just the short-term net return. Taking the long view should certainly be one of the “best principles” of any recognition program. For that reason, ELTV may soon replace ROI as the “best practice” method for determining the value captured by an organization's recognition program.

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