The first week of March is Employee Appreciation Week – tell your team how much you appreciate their efforts! The following is an excellent study of the value and ROI of employee recognition for your review.

The Value and ROI of Employee Recognition

(Source: The Incentive Research Foundation Resource Center)

Today's economic challenges require organizations to find new ways to both reward top performers and to motivate all workers to improve performance and maintain or increase business value—and they need to do both as cost-effectively as possible. The traditional method of keeping and motivating workers to excel is through compensation and benefits. However, those are only two parts of an organization's "Total Rewards" package. In fact, organizations can reward their workers in many ways, including pay, benefits, improvements in work-life, incentives for pre-determined job performances—as well as various forms of recognition. According to WorldatWork, recognition can include both formal and informal programs and support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Recognition should acknowledge employee contributions immediately after the fact and can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.).
There are several reasons that drive individuals—whether employee, employer, tax payer, politician or reporter—to question the value or appropriateness of incentives or recognition:

- **Definitions**: Most people do not have a clear definition and/or understanding of an incentive or a recognition plan—or the difference between the two.
- **Ineffective use of these organizational tools**. Some organizations, and the responsible individual managers, do a poor job designing, implementing and managing these tools.
- **The lack of reporting the value of these plans**. Generally, only ineffective plans or those with inappropriate outcomes are reported by the media.

It is for these reasons, as well as the need for a comprehensive review of the available data on the effectiveness of recognition programs, that this report was produced. What is the value of employee recognition? Which types of awards are best used when providing recognition? How does one determine the ROI of employee recognition? This paper addresses 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.
- The effect or non-effect of various types of rewards (e.g., tangible and non-tangible) upon work motivation.
- Evidence of how elevated 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., ROI, VOI, Lifetime Employee Value—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?

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The Role of Recognition

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

- For example, in a large-scale 2004 study of employee engagement, the Corporate Leadership Council (CLC) found that only 11% of today's workforce demonstrates a very strong commitment to their organization, while 13% are actively non-engaged –poor performers who put in the minimal amount of effort. In the middle lies the 76% of the workforce that is "up for grabs." Elevating the engagement of both this great middle and the low performers increases discretionary effort and retention by as much as 20% and 87% respectively.
- In addition, as in their 2004 survey, Gallup has found that only 29% of workers were "engaged," while 54% were "not engaged" and 17% were "actively disengaged." 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 find success at four distinct types of business outcomes:
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    - ***Productivity***—Business units in the top quartile of all engagement responses have 50% higher productivity than those in the bottom 25%.
    - ***Employee Turnover***—Business units in the top quartile have a 13% higher success rate (lower turnover) in comparison to those in the bottom 25%.
    - ***Profit***—Business units in the top quartile have 44% higher profitability than those in the bottom 25%.
    - ***Customer Satisfaction***—Business units in the top quartile have 50% higher customer satisfaction than those in the bottom 25%.

2. Increased employee engagement has a dramatic positive effect on improving job performance and capturing business value. This point was confirmed in 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 engagement with their work. When survey results were compared 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 over a 12-month period. [In contrast, companies with poor employee engagement scores had declining operating incomes and an 11% drop in earnings per share over the same 12-month period.

3. Those organizations actively seeking to improve employee engagement, including through the use of formal and informal recognition, financially outperform their competitors. The results of Watson Wyatt's Human Capital Index Study clearly shows that better Human Capital Management (as measured by a composite HCI Score) is correlated 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.

4. Recognition programs have the potential, unlike compensation and incentive-based programs, to create a positive cycle of ever-increasing employee engagement and motivation. Resulting improvements are job performance-related behaviors at optimum levels with a limited investment.

Best Principles
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. It is the engaged worker who will increase his/her level of discretionary effort—if the goal is performance—or desire to stay on the job when the goal is increased retention. Building on this point, we highlight throughout this report several commonly agreed upon “best principles” for the application of recognition programs that should result in the behavioral changes most often linked to employee engagement, improved job performance and, ultimately, increased business value. These include:

- Develop a “recognition strategy” that rewards activities linked to specific business objectives and/or desired cultural values.
- 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.
- Measure the cost of the recognition reward system and the benefits gained –whether through ROI or other methods.

The Value of an Integrated Recognition Program
The best way to implement a recognition program is with a rational, carefully formulated approach that is based on sound theory and that is well integrated with an organization’s business strategy—one that recognizes behaviors that are likely to positively affect an organization’s value.