Recognition COUNCIL

VALUE PEOPLE, MOVE BUSINESS

The Time for Employee Recognition and Rewards Programs Is Now

Thesis: Employee Recognition and Rewards Programs Can Generate Significant Revenue and Profits

Introduction

In today's economy, many companies are dealing with a workforce that has been – or very soon will be – reduced to core essentials. The competitive marketplace, on the other hand, cannot be put on hold until the economy improves. Attracting and retaining the very best talent is a key element to stability at any time, but it is especially so during a recession.

Successful companies know that they must have the entire team fully engaged in the success of "their" company during challenging times. This is important to success not only during the recovery, but also well beyond. A lack of engagement, according to recent research, can lead to an overall reduction of 10 percent in our GNP, not to mention its effects on the corporate bottom line. Creating a climate of appreciation, where efforts are recognized and potentially rewarded, can go a long way toward strengthening the process of engagement and improving the outlook for the company as a whole.

Further complicating the recession economy is the shrinking talent pool. As baby boomers retire (or hope to soon), so-called baby busters and millennials are taking over leadership roles throughout corporate America. A shortage of talented workers worldwide is inevitable in the coming years. Global recruitment will see an increase in diversity – in age, experience, language, culture and values – thus challenging companies to consider multiple strategies and tactics to drive performance and employee engagement.

Developing recognition and reward programs to encourage an engaged, diverse and talented team is an important tool for thriving in the best times and surviving during economic downturns. Even though the environment in which companies are operating may appear complex, recognition programs can be designed to be very effective and easy to administer.

Economic Realities Are Churning the Business Environment

Buyouts….Bailouts…Bankruptcies. The three "Bs" today dominate our economic landscape in a way not seen since the Great Depression. Businesses of all kinds are confronted with the two-pronged oppressive realities of a down economy and growing global competition. While the financial experts and government officials desperately seek ways to stabilize and grow the economy, human resource professionals must continually struggle with changing business models and marshal their best efforts to forge better ways to attract, retain and inspire the right employees as the lynch pin in any company's survival.

As layoffs occur and unemployment rises, those employees who remain are faced with increased workload in an uncertain environment.

Companies cannot afford to lose valuable talent to do an increasingly overwhelming job, especially when replacing that talent will cost them at least $9,000 to $47,000 or more—if they can even find the right skill match for their needs. The complexity of the current economy and job market is unprecedented.

Adding to the business environment is the fact that global competition continues unabated regardless of the current downturn in the U.S. economy. Rapidly advancing technology continues to fortify the growth of a truly global economy, making it easier for companies of all sizes to readily conduct business across the globe with as little as a simple mouse click.

> Organizations worldwide are [not only] scrambling to find effective ways to attract and keep the best talent, but also to elevate their performance, productivity and service levels to new heights. Embodied in this quest is the ability to align individual behaviors with strategic corporate objectives and to motivate and reward those who meet or exceed those objectives. In today's economy, organizations must achieve maximum ROI in their people to boost corporate performance and gain competitive advantage. (Recognition ROI…Now More than Ever! Michelle M. Smith, CPIM, CRP, *The Power of Incentives* 2008. p. 87)

Having the right talent has never been more important–even during a recession. It is the key to sustainability and the hope for future growth.

The Effect of a Changing Talent Pool on Engagement

The changing demographics of the talent pool complicate business planning and day-to-day operations. Before we entered this recession, the U. S. Department of Labor predicted that there would be as many as 10 million more jobs than people needed to fill them by the year 2010. The prediction was made based on the fact that many baby boomers would reach and enter retirement just as a smaller pool of younger employees entered the workforce.

Furthermore, a 2007 global study by the human capital services firm

Towers Perrin, pointed out that employee engagement has a direct impact on retaining employees and that leaders needed to do more to "inspire" the workforce by "recognizing" the value of employee potential. In the study, half of the "engaged" employees stated that they had no plans to leave their company, compared with just 15% of the "disengaged" group and roughly a third of the workforce overall. Less than 5% of engaged employees said they were actively looking for another job compared with more than one in four of the disengaged employees.

Today's workforce is a mosaic blend of people of different ages and at different stages of their career. Greater employee diversity has become the norm. Today, each employee has a unique set of interests and influences, yet they all want to succeed and be appreciated for their efforts.

It comes as no surprise that today's companies need multiple employee engagement strategies to keep their diverse, lean workforce motivated. It is difficult to motivate everyone equally. Recognition and rewards programs are a good strategic business tool that can offer a variety of appreciation vehicles to keep a company on track and employees working together toward their common business goals.

Engaged Employees Are The Answer – Especially During Down Times

Simply put, employee engagement is the ultimate goal. Lack of engagement leads to lost productivity and, ultimately, to lost profits. Research shows better performance consistently yields better results. In fact, business futurists Roger Herman and Joyce Giola report that companies who recognize their people outperform companies that don't by 30 to 40 percent. (Turn Best Practices into Common Practices with On-the-Spot Recognition, Louise Anderson, *The Power of Incentives* 2008. p. 97

Moreover, a recent study by the Corporate Leadership Council found increased employee commitment could lead to 57 percent more discretionary effort, which in turn produces a 20 percent improvement in performance. Similar research by Watson Wyatt Worldwide shows that companies with employees who trust management enjoy 300 percent more profitability than companies who don't. (Recognition ROI…Now More than Ever! Michelle M. Smith, CPIM, CRP, *The Power of Incentives* 2008. p. 87)

People performance is very important. It distinguishes top performing companies from those that may not survive. Nothing drives profitability like engaged employees. In a down economy, this may be the critical difference between choosing to do business with one company or another.

> The bottom line is that North American workers are as strong as they have ever been and, if properly engaged, will lift our economy to a level of regenerative success. It is up to business leaders to engage this resource in a manner that transforms their jobs from just 'getting it done' to always finding a better way to do what they do. (The Secret to Success in the Current Down Economy Lies in the North American Worker, Chris Harrison, 12/15/08, **http://detroiteronline.com**, downloaded 12/16/08)

Creating and maintaining a climate of employee appreciation can make the difference—and it doesn't always need a large budget. In fact, it can be one of the most cost effective moves an employer can take. Companies of all sizes need to make a conscious commitment to employee recognition if they want to keep their employees engaged and productive.

"In a fast-paced business there are always problems. Without a conscious effort to maintain recognition, the negative events will continually jump in line before the positive ones." (12: *The Elements of Great Managing*, p. 57)

Even simple, straightforward recognition and praise is one of the most often "missed opportunities" in business today. Positive reinforcement language has been shown to activate the regions of the brain that are related to the concept of "rewards."

"The chemical (dopamine) not only makes healthy employees feel good when they get praise; it also is crucial to memory and learning. It creates an internal reward system that makes employees want to repeat behavior that the company needs—if doing the right thing earns them recognition." (12: *The Elements of Great Managing*, p. 55)

According to recent research, failure to engage employees can lead to an overall reduction of as much as 10 percent in our Gross National Product.

Recognition and Rewards Work; They Motivate Employees

Appropriate recognition at the appropriate time is a best practice that ultimately improves the performance in any organization. A Gallup poll found that 82 percent of employees say that the recognition or praise they receive at work motivates them to improve their performance. Employee recognition programs, motivational incentive programs and even flexible work schedules all add to a positive culture that helps workers be more engaged and focused on achievement.

Companies are realizing the powerful impact on-the-spot recognition has to reinforce desired behaviors and achieve results. Highly visible immediate, consistent, motivational and engaging, on-the-spot recognition works across all industries and is effective for employees of all ages. (Turn Best Practices into Common Practices with On-the-Spot

Recognition, Louise Anderson, *The Power of Incentives* 2008. p. 102)

Evolving research tells us that:

- Employees who feel valued and trusted are more productive.
- High performing employees will leave companies if they do not feel valued.

By using definitive recognition and rewards programs, managers can expect:

- A visible way to measure employee performance.
- Clear identification and reinforcing messages about best practices by consistently rewarding behaviors that produce results.
- A way to quantify and track exemplary behaviors and best practices in activity reports.

At the same time, employees experience:

- A more rewarding culture that reinforces company standards and values so employees are motivated to incorporate them into their goals and performance and also encourages company loyalty.
- Established methods that make them feel valued and foster enterprise wide performance improvement.
- Peer-to-peer recognition that encourages and energizes teamwork and camaraderie.

"One of the most effective ways of improving recognition of employees is to discover the forms of feedback that mean the most to them." (12: *The Elements of Great Managing*, p. 58)

> Employees won't wait until their annual performance review to be recognized and rewarded for exhibiting best practices. On-the-spot recognition—recognition given as close to the event as possible—creates a positive environment that fosters improved performance. Spontaneous, on-the-spot recognition is highly motivating. It provides immediate positive feedback while building a strong, positive culture based on respect, recognition, and a dedication to excellence. (Turn Best Practices into Common Practices with On-the-Spot Recognition, Louise Anderson, *The Power of Incentives* 2008. p. 99)

A recognition and reward culture's impact can be far more effective than the size of its budget. On-the-spot praise for a job well done gets it started. In a 2004 Maritz poll, 81 percent of respondents who had never received a "thank you" from their supervisor said that they were very likely to leave their current job. In that same survey, only 25 percent of respondents who received regular recognition said they would consider leaving. A survey of 1,000 workers by the UK consulting firm White Water Strategies found that saying "thank you" or praising staff can affect job satisfaction as much as a one percent pay increase.

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Recognition and rewards programs have advanced with the ongoing progress in the human resource and business planning fields. In the past 10 to 15 years, technology has allowed many companies to implement recognition and reward systems that streamline the process. Today, companies can have a recognition system that allows real time, ongoing recognition of performance to make the activity immediate and relevant to both the company and individual employees. These systems leverage the power of recognizing desired behavior as soon as possible after it occurs.

Recognition and Rewards Programs Can Be Measured

When compared with advertising, direct marketing and event marketing, well-designed incentive programs have by far the highest level of cost accountability related to results. (Why Incentive Programs Endure Recessions, Incentive Performance Center (IPC), 2008, **http://www.incentivecentral.org**, downloaded 12/16/08)

In today's challenging and globally competitive economy, companies must achieve maximum ROI in their people by boosting corporate performance to a level that generates competitive advantage. It is easy to track the results of incentive programs and assess ROI using today's technological tools.

It is crucial to begin with clear and measurable goals and to set rewards accordingly. Only when the goal is reached is the reward given. The beauty of a formalized incentive program is the demonstrable results that show which employees or teams are meeting or exceeding goals at a given point in time. Since the cost comes out of the additional revenue or improved performance generated by the program, there is a direct link between the cost and the results.

Programs which offer an array of recognition and reward mechanisms as diverse as the workforce are especially effective, as they allow for personally motivating choices to drive performance. Online applications can provide ease of use, consistently deliver the message or goals of the organization, and offer exceptional ROI.

Especially in a down economy, decision-makers can measure program costs to established goals to determine effectiveness—almost on the spot. In this way, recognition and reward programs are used as a specific tool to help a company succeed in both good times and bad by making employees feel valued and driving performance.

The Link Between Customer Satisfaction and Recognition

The effectiveness of recognition and rewards programs has also been linked to the area of customer relationships:

> The link between customer satisfaction, loyalty and profitability, and employee satisfaction has been firmly established by the Forum for People Performance Management and Measurement at Northwestern University---even when the employees did not have direct customer contact. A new path to customer loyalty was created---happy customers are a result of happy and engaged employees. (Recognition ROI…Now More than Ever! Michelle M. Smith, CPIM, CRP, *The Power of Incentives* 2008. p. 88)

So, employee engagement can be generated by recognition and reward programs and that employee engagement can foster higher customer satisfaction, which in turn increases loyalty and results in greater profitability.

As consumers and clients are increasingly cautious about spending, it is essential to maintain relationships and be the "partner of choice" for every single customer. Recognition can help ensure that this relationship continues and perhaps deepens, despite an increasingly competitive marketplace.

Employee Recognition and Reward Programs Need to be Preserved – Even During An Economic Downturn

According to the Brookings Institution, 85 percent of a company's market value is now calculated on intangible assets, which they define as knowledge, reputation and human talent. Gallup research tells us that the cost of lost productivity due to disengagement in the U.S. is well over $300 billion *(12: The Elements of Great Managing, p. 201)*. Clearly, no organization can afford to ignore the power of its human capital assets. People do their best when they feel valued for their contributions and when their performance is recognized.

A 2007 global workforce study conducted by Towers Perrin found that firms with the highest percentage of engaged employees collectively increased operating income 19% and earnings per share 28% year-to-year. Those companies with the lowest percentage of engaged employees showed year-to-year declines of 33% in operating income and 11% in earnings per share.

Overwhelming research demonstrates that companies that engage in recognition and rewards programs, including the use of specific incentive programs, significantly outperform their competitors. These programs telegraph to all employees that the leaders of the companies are paying attention and noticing employee efforts. That recognition, in turn, encourages employees to do more and be more engaged.

A report by the Society of Human Resource Management (SHRM) estimates that Molson Coors saved more that $1.7 million in just one year by strengthening employee engagement. Data from Best Buy showed that stores where employee engagement increased by a tenth of a point on a five-point scale realized a $100,000 increase in annual sales (*Motivation Strategies*, Summer 2008, pp. 26 & 28.)

While there may be a temptation to target employee motivation and incentive programs as a way to trim costs during lean times, studies conducted by the partner organizations of the Incentive Marketing Association (IMA) – the Incentive Federation and the Forum for People Performance Management and Measurement—have, in fact, shown a negative impact in lost talent, productivity and, consequently, future sales and profits once an economic turnaround begins. Additional research has uncovered that companies that continue to invest in rewards and recognition programs regardless of economic conditions tend to outperform their competitors.

Engagement Is Critical to Drive Busines

Engagement is critical to drive business in this – and any - economy. In the end, a commitment to employee recognition and rewards coupled with an investment on the part of company management can generate a significant payoff in performance.

As companies lose valuable talent to the forces of recession, managers must keep in mind that the remaining workforce may be discouraged, further impacting productivity at a time when employees need to be more engaged than ever. Engaged employees can help lift individual business performance and, by extension, the economy. This is why savvy companies turn to recognition and incentives to contribute to the vitality and well-being of the organization and its people – especially today.

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Buyouts….Bailouts…Bankruptcies….*currently dominate our economic landscape in a way not seen since the Great Depression. The looming realities of our down economy, changing demographics and growing global competition are forging new maxims about the workforce:*

Every business must have the right employees to remain viable.

- Today's economic realities are churning the business environment and talent pool in ways heretofore unseen.
- Changing demographics further challenge attracting and retaining the right talent.
- Attracting and retaining the right talent is the key to stability, especially during a recession.

Recognition and reward programs help the bottom line.

- Companies with recognition and rewards programs outperform their competition
- Recognition and reward programs are ROI compatible.
- Customer satisfaction, loyalty and profitability are tied to recognition.

Employee engagement has never been more important.

- Engaged employees make significant contributions to profitability regardless of the business environment.
- Recognized employees become engaged employees.
- Employees who feel valued stay with companies and are measurably more productive.
- Engaged employees foster customer satisfaction and company loyalty.

Recognition and reward programs should be retained even in a down economy.

- A 2007 study showed that engaged employees increased earnings per share 28%.
- The same study showed that companies with low employee engagement experienced declines of 11% in earnings per share.
- Engaged employees can help lift business performance and the overall economy.