



## Calculating the ROI of Recognition Programs

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.

And while these programs are just one method for increasing employee engagement, they are important for a number of reasons:

- 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.

### A CULTURE OF RECOGNITION

Recognition programs can help organizations 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. 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 this report is that recognition is among the best (and certainly most cost-effective) methods of improving work motivation and employee engagement.

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#### Source

Excerpted from *The Value and ROI in Employee Recognition*, published by the Human Capital Institute, in conjunction with the Incentive Research Foundation and the Forum for People Performance Management and Measurement. June 2009. For a copy of the complete 38-page report, go to [www.enterpriseengagement.org](http://www.enterpriseengagement.org).

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While the major research studies provide a wealth of support for the connection between improved employee engagement and increased business value, the studies also show the need for a body of data linking specific types of recognition programs with quantitative estimates of business value – and this value is as likely to be non-financial value as it is to be financial.

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 don't 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. 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.

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 especially 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*



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(VOI) of recognition programs, where VOI considers both financial and intangible benefits.

#### 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. 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 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 Enterprise Engagement Alliance (EEA) is a coalition of companies and associations dedicated to the idea that engagement is an enterprise-wide endeavor that "begins with people and ends with profitability." The EEA's primary mission is to research and promote the importance of engaging people in business, including customers, employees, channel partners and managers. The organization's first research project, "The Economics of Engagement" was released in June 2009 and is available at: [www.incentivecentral.org/pdf/Final\\_Economics\\_of\\_Engagement.pdf](http://www.incentivecentral.org/pdf/Final_Economics_of_Engagement.pdf). Contact [info@enterpriseengagement.org](mailto:info@enterpriseengagement.org) for more information.**