

# THE USE OF REWARDS & RECOGNITION IN DRIVING ENGAGEMENT



By Allan Schweyer, Chair, Enterprise Engagement Alliance

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## KEY FINDINGS

1. Reward programs, when properly used, address intrinsic touch points, not extrinsic.
  - ✓ Rewards should be used to create positive emotions, buzz, and a sense of organizational support for people who perform.
2. For rewards to address intrinsic motivation, think customization and personalization.
  - ✓ Companies are making a mistake when reward programs become a cash equivalent. Rewards should be carefully selected for the audience and recipients, with as much personalization as possible in the presentation process.
3. Make a clear distinction between compensation and recognition.
  - ✓ Recognition should be clearly distinguished from pay or commissions or discounts, or it risks becoming “expected” or forgotten. A key reason for using noncash rewards is to clearly distinguish recognition from compensation.
4. Make rewards exciting and memorable.
  - ✓ Carefully select rewards to maximize buzz within the organization, and present them in a way that people will not forget .

## INTRODUCTION

Each year in the United States, organizations spend more than fifty billion dollars on merchandise and travel rewards alone. These rewards are used to drive desired behaviors among consumers, distribution partners, salespeople and other employees.<sup>1</sup> When cash rewards (including gift cards, etc., time off and other tangible items are added, the number likely soars to well over \$100 billion. Yet most companies rely on instinct or assumptions when choosing rewards. Few organizations invest time in understanding which rewards should be used for which people to encourage what outcomes. Fortunately, a growing body of research provides an increasingly clear basis for determining when to use which types of incentives.

In September and October, 2011, the Enterprise Engagement Alliance (EEA) performed a review of the past quarter-century of research into Rewards and Recognition. The review drew heavily from the body of work created to date by the Incentive Research Foundation (IRF) one of the nation's premier research organizations for incentives, rewards and recognition. Among the main objectives of the review was to determine links between the use of incentives and engagement (mainly employee and customer engagement). The review combined evidence from more than forty studies, demonstrating that incentive and reward programs can drive engagement – specifically, that programs can drive engagement if they are carefully and deliberately *designed* to do so. Design, in this case, refers to the selection, mix and delivery of rewards, incentives and recognition depending on the target recipients, resources available and the desired outcomes.

**"[The incentives] would be the last thing we would eliminate before we turn the lights off. Everyone shared in a salary reduction across the company but we still need an incentive program to retain the best of the best. I think it would be devastating if we took out the program."<sup>2</sup>**

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There is overwhelming evidence among the research that incentive and reward programs work. Among the more sophisticated is compelling evidence of a hard dollar return on investment (ROI). Perhaps the best endorsement for reward programs is their

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<sup>1</sup> United States Incentive Merchandise and Travel Marketplace Study, The Incentive Federation, 2007

<sup>2</sup> *Anatomy of a Successful Incentive Travel Program*, Kimberly S. Severt, Ph.D & Deborah Breiter, Ph.D, The Incentive Research Foundation, 2010, p.46

resilience in the face of the worst economy since the Great Depression. Several of the research studies reviewed addressed the impact of the recession on incentive budgets. The 2011 IRF surveys of incentive program planners and its 2011 Merchandise Poll as well as the “Top 11 Incentive Trends for 2011” and the “Pulse Study: Spring 2011 Research Brief” all reveal limited impact on incentive program budgets despite the severity of the recession. Many of those surveyed reported that instead of deep budget cuts, they instead focused on the mix of rewards and recognition and a greater emphasis on design that would allow them to achieve the same or more with frozen or slightly reduced budgets.

Time and again, our research led us to design as the key ingredient of incentive program success. In much the same way an advertiser crafts the message and selects the media to reach his intended audience, incentive planners must design rewards for the specific recipient.. Only by these means can rewards strike at the emotional heart of the matter and deliver ROI in excess of the cost of the reward.

The purpose of this paper is to lay out models and best practices in incentive (reward & recognition) program design and provide the reader with a formal framework for award selection based on the research.

## THE SHIFTING LANDSCAPE: A NOTE OF CAUTION

If there ever was a time when rewards and incentives were best delivered in a “one size fits all” approach, that day has long passed. Among employees, sales people, customers and channel partners, different rewards drive different behaviors and outcomes. Customers, for example, have become more engaged and loyal through targeted tangible rewards programs but also through forms of recognition that strengthen their emotional connection to a vendor and its “brand”.

More than ever, rewards and incentives programs must demonstrably link incentivized behaviors and actions to broader organizational objectives. In a recent study of 2,000 organizations across the United States, a close and visible connection between incentives and corporate goals was the most powerful of 30 human capital management best practices studied.<sup>3</sup> Where the link was strong and visible, organizations were more than twice as likely to fall into the study’s highest quartile in financial performance over the previous seven years.<sup>4</sup>

**“Research from the IRF and other sources has consistently measured greater impact and Return on Investment (ROI) of most non-cash rewards than cash rewards.”**

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Employees, customers and other stakeholders of organizations increasingly seek emotional rewards in addition to tangible rewards. This may be because an increasing percentage of the population is knowledge-oriented or “white-collar” in the work they do and the purchasing choices they make. Beyond taste, for example, some consumers are “rewarded” with positive feelings when they purchase organic and/or local food– an emotional reward that, while difficult to measure, is, in important ways, more powerful than purely tangible rewards that fail to tap emotions.

Gallup has demonstrated the impact of emotional rewards with consumers in a variety of conditions and scenarios, including the effect on loyalty and “share of wallet”. In Figures One and Two below, a retail bank is shown to retain customers far more readily when it combines emotional engagement with rational incentives. Similarly, a retailer

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<sup>3</sup> Talent management IBM HCI 2009

<sup>4</sup> Ibid

earns greater per customer spend when it combines tangible (rational) rewards with emotional (intangible) rewards.

These and other studies are brilliantly woven into Paul Herr's 2009 book "*Primal Management*". In his book, Herr explains that everything we do, from the moment we get out of bed (including getting out of bed) is incentives driven. He proposes that there is a place for tangible incentives and intangible motivators in engaging all of an organization's stakeholders, the challenge is in designing programs that borrow appropriately from both depending on the outcomes desired. Because Herr's evidence for emotional engagement is rooted in neurological science, he might argue that what motivates people today are the same things that have motivated them for thousands of years, yet he would agree that the manifestation of those needs are much closer to the surface today given the nature of contemporary work and business environments. Today's employee, consumer or partner is much more likely to consciously seek emotional rewards and engagement than in the past.

**Figure One: The Impact of Emotional Engagement**



*Source: "Human Sigma, Gallup, 2008"*

## TYPES OF REWARDS

Rewards and incentives come in many varieties. Cash, cash equivalents such as pre-paid cards, and non-cash rewards such as merchandise, group and individual incentive travel, paid time off and recognition in the form of praise, choice assignments, corporate travel, career advancement, and many more. Airlines, to name just one industry, offer loyal customers incentives for free travel, select seating assignments, upgrades, fast check-in, free luggage, etc. The possibilities are nearly endless but the main decision for most incentive program designers boils down to cash vs. non-cash rewards.

The implications of this decision can be significant. While cash is frequently among the most preferred rewards among recipients, it is rarely the most strategic choice for the planner. Research from the IRF and other sources has consistently measured greater impact and Return on Investment (ROI) of thoughtful non-cash rewards than cash rewards.

For example, the IRF 2010 study *"Anatomy of a Successful Incentive Travel Program"*, found that "employees are motivated by both the incentive travel award they can earn and the recognition afforded to them by the corporate leaders when they participate in the travel event. They are also excited about the opportunity to network with other high performers and share best practices." And, "From the management's perspective, the incentive travel program is a business expense justified by the tangible and intangible benefits of the program. Tangible benefits are the increase in financial metrics, which strengthens the company financially, while intangible benefits are those that strengthen the company internally such as the reinforcement of the organizational culture."<sup>5</sup>

Incentive travel programs offer management the first hand opportunity to gather with top performers, learn from them and get their feedback. This allows them to build a personal relationship with their top performers, and gives top performers a chance to build stronger connections with each other. The report referred to above states that "The recognition earners receive during this time (ITP) is something monetary rewards cannot provide."<sup>6</sup> To cite just a few additional studies, a 2009 report showed that a high percentage of both executives and incentive travel participants believe that incentive travel "significantly impacts" employee morale, job satisfaction and performance (Oxford Economics USA, 2009). A 2003 study of users of merchandise and travel items

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<sup>5</sup> *Anatomy of a Successful Incentive Travel Program*, Kimberly S. Severt, Ph.D

<sup>6</sup> Ibid

for motivational applications conducted for the Incentive Federation indicated that users believe incentive travel provides a more exciting and more memorable, long-lasting experience than cash or merchandise incentives.<sup>7</sup>

The lasting effect and memories associated with incentive travel as well as the awareness it creates in the organization; the healthy competition it may generate, and visible, powerful recognition appear logically to deliver greater ROI and impact than writing a check.

Similarly, although merchandise-type rewards might rate lower than cash in perceived value for many recipients, the ROI for the organization may be higher than in providing cold, hard cash. Merchandise can be made memorable and meaningful, and like incentive travel, can deliver greater emotional impact than cash. Many studies that have surveyed and interviewed cash reward recipients have found that cash loses impact because it often arrives with other pay (and is indistinguishable) and/or is direct deposited and taxed at source with little fanfare. Moreover, recipients are far less likely to use the cash to purchase something memorable than they are to incorporate it into everyday use for regular expenditures or savings. In short, cash does little to associate positive emotional connection (or engagement) with award winners. Carefully selected and presented merchandise, on the other hand, can leave memorable impressions both with the recipient, and his or her influencers (i.e. spouse or parents). And when, for example, it is presented by the boss, or comes with a note from the CEO, recognition is added to reward (as opposed to being selected from a catalogue and delivered by mail, for example).

The art and science of incentive program design has evolved with the research and continues to adapt to the new realities of today's workforce, consumer preferences and an ever shifting business environment.

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<sup>7</sup> *The Design & Impact of Employee Recognition Incentive Travel Programs*, Dr. James Peltier, Ph D, IRF, 2011

## THE BROADER DESIGN OF INCENTIVES, REWARD & RECOGNITION PROGRAMS

Incentives plan designers have a great deal more to consider when building their programs than types of rewards alone. As above, it is important to craft the right mix of tangible, intangible, cash and non-cash rewards but it is equally important to start at the source of the challenge the incentive is intended to address.

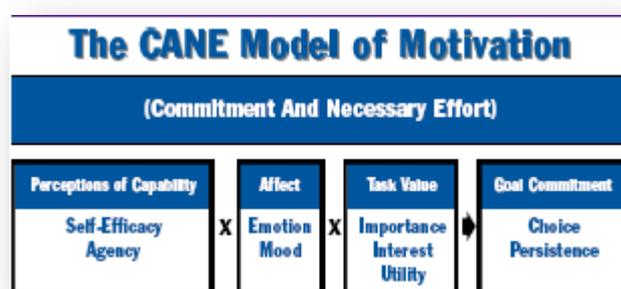
Planners should start with an examination of the issue, which is most likely a shortcoming in performance or a goal not being met. An analysis might indicate that the performance gap is caused by a knowledge or skills deficiency. In this case, incentives are unlikely to be the best method of closing the gap (training may be). Where the gap involves people who are capable of achieving the goal but don't want to, carefully designed incentives are often a good choice. In these circumstances, planners should understand why people don't want to do the work or buy the product as the case may be. Poor product sales might result from confusing marketing just as work avoidance might come from poor instructions, for example. In many cases, work avoidance problems occur where creative, knowledge workers are asked to perform mundane (but necessary) tasks. These challenges are often best addressed in the short and long term with incentives.

But incentive planners should view their role in the context of the bigger picture. They wield a lever that may or may not have a role to play in any particular problem. In many cases, incentives will be part of a mix of interventions used to close a performance gap. Each element of the intervention, including communication, training, incentives, etc. should be directly tied to a corporate goal or objective and the connection easily understood by a stakeholder. Employees who are avoiding tasks will be much more powerfully motivated if they can see how that task impacts bigger, more inspiring goals. Thus, the incentive should relate to the inspiring goal even though it may be rewarded for performing the mundane task. In the same vein, if a customer can be convinced of the social value of a product, he or she can often be persuaded to pay a premium. In these cases, the incentive is purely emotional.

## MODES OF MOTIVATION

A significant amount of research has been, and continues to be conducted into the question of what motivates us. Those models and theories that persist, view motivation as a continuum, in which the right ingredients have to be in place and stay for a level of motivation and commitment to be maintained. The CANE model is among the earliest of the modern models. Like those that have been adapted from it (see the PIBI Model below) it emphasizes the emotional aspects of engagement.

*Figure Two: The CANE Model of Motivation*



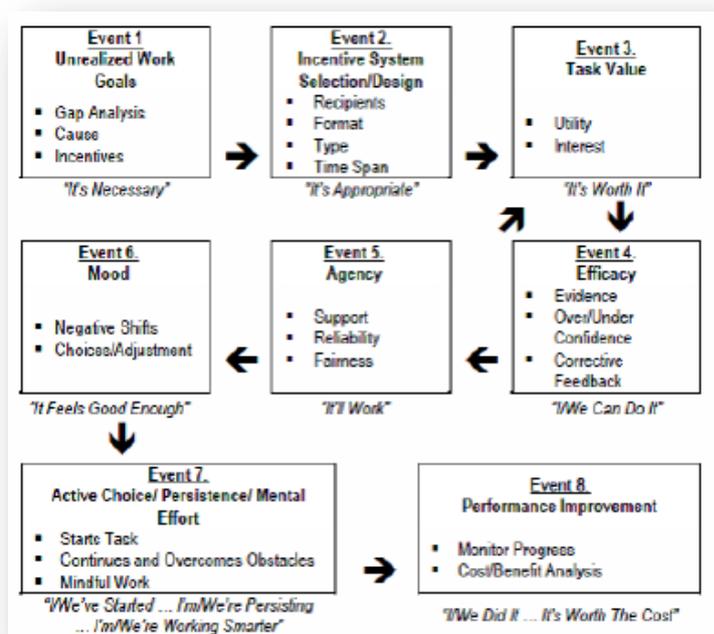
The first stage: Perception of Capability is a practical one. Can I do this task? Do I have the skills/knowledge? (Self-Efficacy). If so, the next concern is: Will I be properly supported? Can the task be done in the current environment and conditions? (Agency) The next stages: Affect and Task Value rely on the evaluator’s intrinsic motivations, “how do I feel about the task?”, “How do I feel in general”? “Do I like the task? Is it a good fit?” These questions get to the emotional component of engagement, they reflect mood and interest. Next, utility asks, “What’s in it for me?” At this stage, even if the individual is attracted to the task, they are unlikely to be enthusiastic if the answer is “little” or “nothing”. Finally, to take enthusiastic action, the person must buy into the goal. They might ask whether they agree with the goal or objective and whether they can commit to it.

The CANE model gives incentive plan designers guidance in the thought patterns of individuals and what motivates them. Unfortunately, it offers very little specific advice on how to design incentive programs. In 2002, researchers Stolovitch, Clark and Condly<sup>8</sup> developed the PIBI model (Figure Three) based on the CANE (Commitment and Necessary Effort) model.

<sup>8</sup> Stolovitch, H. D., Clark, R. E., & Condly, S. J. (2001). *Incentives, motivation, and workplace performance: research and best practices*. Silver Spring, MD: International Society for Performance Improvement.

“Twenty-five years of research has shown that well designed programs are much more likely to generate high returns on investment than are less considered approaches.”

*Figure Three: The PIBI Model*



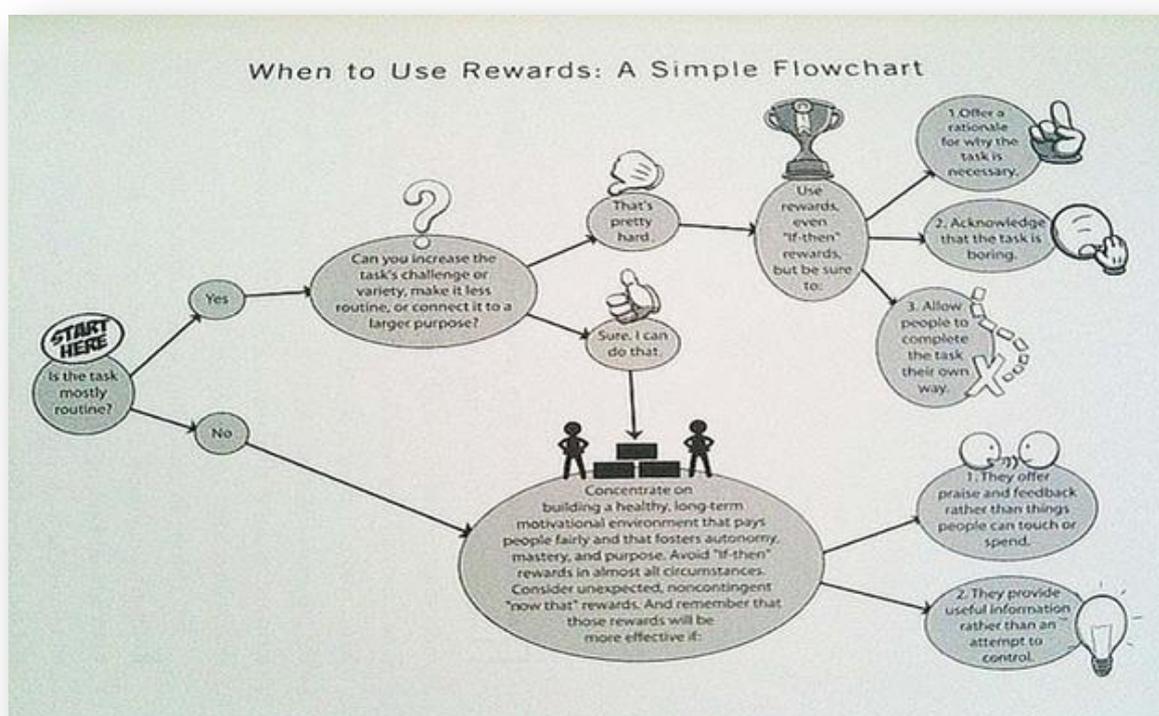
The Performance Improvement By Incentives (PIBI) model was designed to identify the areas of importance and relevance; provide guidance on the step-by-step procedures of implementation and allow decision makers to troubleshoot and correct the system if it is not yielding desired results.

The process starts with a gap analysis in which a determination can be made as to whether an incentive is appropriate and necessary to close the performance gap. If so, “Event Two” emphasizes careful design of the incentive program with targets, outcomes and types considered. Event 3 translates to the promotion of the incentive program and the creation of interest among the target group. Event 4 communicates encouraging and reinforcing messages including updates on goal achievement and availability of support such as skills training. Event 5 translates into creating trust in the incentive program and exceeding expectations among participants. At Event six, the program might address negativity by mixing past reward recipients (champions) with non-recipients and possibly adjusting the program if it is losing momentum. Event 7 emphasizes the

importance of integrating the incentivized behaviors into the everyday flow by rewarding persistence, supporting those involved and maintaining communications. Finally, Event 8 examines the impact of the program in measurable terms such as changes in actual performance and progress against objectives.

For the incentive program designer, even the PIBI model can leave some doubt as to how to design highly individualized and targeted incentive programs. Where employees are concerned, Figure Four below offers additional guidance. This diagram appears in Dan Pink's 2009 book, *Drive*, as a simple decision flowchart is determining when and how to use rewards.

**Figure Four: The Incentive-Engagement Model**



*Source: Dan Pink, Drive, 2009*

Pink's flowchart introduces the problem of motivating different types of employees doing different sorts of work. According to Pink, the more routine a task is, the more likely a worker will respond to tangible incentives such as cash and merchandise. However, as a task becomes more creative, the worker is more likely to be intrinsically engaged in the work and the offer of tangible rewards might diminish some of that motivation. In these cases, incentives should emphasize recognition, praise, assignments (or incentive travel) of interest, etc. Tangible rewards can still motivate but should be used cautiously, sparingly and be geared toward performance outcomes rather than

behaviors. In most cases, tangible rewards such as bonuses, gifts, etc. should be unexpected and come after the accomplishment rather than before. Dan Pink describes this distinction as “Now/That” versus “If/Then”.

None of the models above address the potential adverse impact of incentive programs. Though not the subject of this paper, designers should think about the impact of incentive programs on other parts of the business, especially when forecasting ROI. Even where programs might be deemed successful – i.e., increased sales objectives are met – if extra overtime must be paid in manufacturing to keep up with orders or if quality declines and returns increase, for example, the net result might still be a loss for the organization.

### **Key Reward Selection Pointers**

1. Make a clear distinction between compensation and recognition.
  - ✓ Select rewards that can't in any way be confused with pay, commissions, or pricing so that the recipient understands that the reward represents recognition, not compensation.
  
2. Tailor reward selections to your audience.
  - ✓ Make a point of selecting rewards that reflect the lifestyles and demographics of your audience so that participants feel a personal connection with the rewards program.
  
3. Pay attention to presentation.
  - ✓ Make the most of the reward-giving process by customizing or personalizing the presentation.

## THE DECISION GRID

Incentive program designers might benefit from examples based on objectives that are common to many programs. Figure Five provides a simple decision grid that borrows from the research findings, models and best practices in reward selection and program design. There are countless other examples that might be used but the objectives below, in this case, aimed at employees will serve to illustrate the logic.

*Figure Five: Incentive Selection Grid*

Objective	Target	Incentive/Reward	Rationale/Comments
Generate 'buzz' for a reward program	All employees Channel partners Customers	<ul style="list-style-type: none"> <li>- Group or individual Incentive Travel.</li> <li>- Valuable and/or sought after merchandise</li> <li>- Large amount cash reward.</li> </ul>	Exotic trips or desirable merchandise will generate more discussion than equivalent cash rewards. For a cash reward to generate "buzz", the amount will need to be extraordinary.
Foster team bonding	Sales Employees Channel Partners	Group incentive travel (traditional)	Offers best opportunity for networking, exchanging ideas and deepening work relationships. The shared experience of group travel is ideal. For knowledge and creative workers, group travel will be better if designed around career experience (i.e., travel to work temporarily in a foreign subsidiary) or volunteer activity (i.e., use skills to aid a village in a developing world country)
	Creative workers, knowledge, and production workers	Group incentive travel (purposeful)	
Improve communication and trust between high performers and senior management	Employees Channel partners Customers	Group incentive travel or luxury offsite conference, etc.	Provides the setting, away from work for networking, idea sharing, relationship and trust building.
Drive sales or another clear objective	Sale people Customers Channel partners	Thoughtful non-cash rewards, including individual/family travel and merchandise, gift cards	Best for clear, direct goals Assumes competitive compensation.

Objective	Target	Incentive/Reward	Rationale/Comments
	Creative workers, knowledge workers	Same as above, plus: Choice of future assignments, autonomy;	Appeals to higher order needs.
Reinforce positive behavior	Routine work	Spot merchandise rewards (frequent, small value) with effective presentation	Acts as regular reminder. Might include spouse, etc where extra hours, weekend work is being recognized (dinner/movie tickets, etc.)
	Creative/Knowledge work	Praise, feedback, additional autonomy, occasional merchandise-type reward	Likely that work being performed is its own reward so caution against diluting intrinsic motivation with carrot-style rewards. Use recognition, work autonomy instead with occasional tangible recognition not necessarily connected to any particular task (i.e. dinner/movie as casual appreciation, not specific reward)
Instill positive memories	All	Individual/Family Incentive Travel	Careful to select destination based on recipient's preference. In this case should be purely recreational and include family as opposed to colleagues
Engage influencers (spouse, parents, others)	All	-Thoughtful merchandise that benefits family - Individual travel (including spouse/family) -Spot recognition and appreciation such as movie, dinner, theater tickets and vouchers or other carefully selected items.	Organizations are wise to include influencers in rewards, especially where the reward earned is at the expense of family time, etc.
Drive participation (i.e. wellness program)	All	Mix of aligned merchandise, branded merchandise, health related rewards (i.e., gym membership, spa, etc.), attainment rewards (i.e. lower employee contribution to health insurance), non-attainment & non-participation disincentives	Health-related merchandise and other rewards used to reinforce wellness message, create branding and 'buzz', support communications. Attainment rewards and disincentives are goal oriented and adjusted to the individual (i.e. weight loss, etc.)

Objective	Target	Incentive/Reward	Rationale/Comments
Promote loyalty	Employees Channel partners Customers	-Carefully selected rewards delivered at various plateaus of loyalty or performance that appeals to the recipient's lifestyle.	The opportunity is to demonstrate your organization's understanding of the individual and commitment to their satisfaction.

## CONCLUSIONS

In the planning and programming of incentives, rewards and recognition, designers are likely to face more scrutiny, more demand for a business case and more evidence of ROI and business impact than was the case a decade or so ago. Though a weak economy and reduced budgets have not impacted rewards budgets dramatically, they have in many organizations led to the greater involvement of procurement departments and the CFO in decision making. Extravagances and excessiveness attached to a few companies in the past decade have also lent a slight taint to incentives in general. In all, today's business and work environment demands more sophistication and thought in incentive program design.

Incentive program design has become essential for several other reasons. First and foremost, it recognizes that there are no "one size fits all" solutions for reward recipients. What motivates and engages one person may have the opposite effect on another. Achieving more with less – stretching the incentive budget is another driver. Twenty-five years of research has shown that well designed programs are much more likely to generate high returns on investment than are less considered approaches.

Rewards and incentives have been with us since the dawn of humankind and will always be a constant in our daily lives. But careful selection of rewards and continuity of incentives programs are critical in developing a culture of recognition to drive higher levels of engagement and performance. The research summarized in this report represents just the tip of the iceberg in the evidence for targeted rewards, individual incentive plans and flexibility. Incentive program designers that embrace these philosophies will deliver greater impact and ROI to their firms at lower program costs than those that continue to rely on instinct and assumptions.