

SHRM

WHITE

PAPER

THE FUNDAMENTALS OF EMPLOYEE RECOGNITION

By Teresa A. Daniel, J.D. and Gary S. Metcalf, Ph.D.

May 2005

Introduction—Rewards Get Results

There are two things that people want more than sex and money—and that is recognition and praise. This observation is attributed to Mary Kay Ash, the successful founder of Mary Kay Cosmetics, but could have been made by any number of HR professionals who know this statement to be true.

High-performance companies understand the importance of offering awards and incentives that recognize, validate and value outstanding work. They keep employees motivated and are effective methods of reinforcing company expectations and goals, especially in times when merit budgets are low (or even frozen), promotions are rare, health care premiums are on the rise and overall job satisfaction is low.

According to the latest research, nearly nine out of 10 companies offer some sort of recognition programs for employees. From informal programs (a simple “thank you”) to formal programs (such as service recognition or above-and-beyond performance programs), companies are using everything from plaques to vacation packages, merchandise to spa certificates as a way to say, “Nice job!”

For a program to be effective, however, it must create value. This means that any program must have a performance component—or it will be meaningless. While many managers, including those in HR, sometimes dismiss recognition and reward programs as “feel-good” activities, evidence suggests that there is a strong link between noncash awards and incentives and improved job performance. In fact, nearly all of the companies responding

in the 2003 National Association for Employee Recognition/WorldatWork study reported aligning recognition strategies directly to the overall strategy of the organization. This indicates that companies are thinking very strategically about the programs they implement and the impact those programs can have on the success of their organizations.

Noncash awards and incentives—ranging from a note to the employee that says, “Good job” to a gift certificate for a nice dinner—can be a cost-effective and valuable tool that can help raise employee morale, lower stress, absenteeism and turnover, and increase productivity, competitiveness, revenue and profits. If you look at companies that people love to work for, you will find that these are the companies that recognize their people and not only tell them that they are doing a great job, but show their appreciation through tangible signals such as incentives, recognition and rewards.

Rationale for Implementing a Recognition Program

In the 2003 National Recognition Survey, sponsored by WorldatWork and the National Association for Employee Recognition (NAER), 87% of the 413 responding companies reported that they had some form of an employee recognition program and 40% of the respondents indicated that they were expanding their programs. Companies hope to achieve a number of results through their recognition programs, but creating a positive work environment was the top reason cited in this survey (80%). Other goals included creating a culture of recognition (76%), motivating high performance (75%), reinforcing desired behaviors (75%), increasing employee morale (71%), supporting the organization’s mission and values (66%), increasing retention/decreasing turnover (51%), encouraging loyalty (40%), supporting a culture change (24%) and other (5%).

Companies have also cited a number of additional reasons for adopting these types of programs, including the following: reducing costs; attracting and retaining key employees; increasing employee productivity, competitiveness, revenues and profitability; improving quality, safety and customer service; and lowering stress, absenteeism and turnover.

While it is clear that employees benefit from these types of programs, it is the companies adopting them that benefit the most. Findings from a recent Watson Wyatt Worldwide study indicate that companies with an effective recognition program in place realized a median return to shareholders that was almost double that of companies that did not have any such programs in place.

Keys to an Effective Program

Employees not only want good pay and benefits, they also want to be valued and appreciated for their work, to be treated fairly, to do work that is important, and to have opportunities for advancement and involvement in the company. Recognition and reward programs play an important role in organizational success by helping attract and retain high-performing employees.

An effective recognition program should meet several essential criteria, as outlined below.

1. Management Commitment

Managers must commit credible and sufficient resources to any incentive program. The road to results begins with resources. Simply put, management backing is the key ingredient. Managers must dedicate the resources, including the time it takes to plan and execute a program. And managers must provide something else—give employees and supervisors the power to run the program.

2. Link to Bottom-Line Results of the Company

To be effective, any program must connect with the needs and expectations of the workforce, as well as the company's overall goals and strategies. If there is no direct link to the bottom-line results of the company and no performance measures to establish this link, employees will be left wondering why the company is offering a program that is so disconnected from their day-to-day reality and the company will get no meaningful payback on its investment.

3. Recognized Value of Awards to Employees

Employees must understand the mission—why the incentive program is being launched. They must be convinced that the chosen recognition system is appropriate for the sacrifices that will be expected in order to achieve the program's goals. The way to make this happen and get "buy-in" at the same time is to give employees ownership of the program. Employees must have some opportunity to make decisions and exert control over the program's direction. Any materialistic awards and rewards must be valued by all participants and perceived as having value, dignity and meaning. A recognition system begins to falter when employees start thinking that their actions are being insulted by inconsequential incentives.

4. Fairness/Equity in Distribution of Awards

The participants in the program must believe that the system of recognition is just and objective. To achieve this, all employees who meet the criteria outlined for receiving the award should be included and recognized. Some companies even include employees in the selection of incentive recipients and also in the determination of selection criteria.

5. Simplicity of Program

The entire incentive process should be thoroughly maintained with a minimum of administrative effort. Keep it simple. Any system that requires either excessive management control, financial calculations that require complex gyrations or sophisticated plans that require exceptional employee understanding will not achieve

desired results.

6. Continuous Evaluation/Improvement

Programs must be continuously monitored in order to keep them relevant and current. The evaluative process should include a review of the following types of questions: Does the program provide rewards that are adequate, fair, competitive and appropriate? Have the program's objectives been met? Has it helped to change processes and/or did it support the company's other performance initiatives? Are there appropriate levels of communication? Was there a celebration? Do employees find the program to be meaningful? What would you do differently the next time? This evaluative process should be completed at the conclusion of every award cycle so that adjustments can be made to improve the system and also to update the program to retain employee interest.

What Makes a Good Reward? Be SSMART

Recognition can be delivered in a number of ways, but to be truly effective, it should be delivered in a SSMART way (with credit to Jim Brintnall for this acronym):

1. Supports Organizational Goals and Values

Any incentives or recognition awards will be most successful when they are congruent with the organization's stated mission, vision, values and goals. It is important that employees see a clear connection between what management says is important and what is actually rewarded at work.

2. Sincere and Simple

Be sure that the awards are appropriate for your culture and that they are given in a sincere and heartfelt manner. Managers and supervisors often fail to give recognition because "they don't know what to say." A simple recipe for recognition can work magic in your organization: thank the employee by name; state what the employee did to earn the recognition; explain how you felt about the employee's behavior; state how the behavior added value to the company; and thank the employee again by name. Calling the person by name and letting him or her know that you personally value the effort can be as motivating as the actual reward.

3. Meaningful

An employee who completes a two-year project should be rewarded in a more substantial way than an employee who simply does a favor for his or her manager. Beware of "canned" award or incentive programs. Company cultures differ greatly, and what works in one environment may fail woefully in another. The reward must be meaningful to the individual receiving it. Since all of us are different, it is incumbent on the person's manager to learn enough about his or her subordinates to know what types of things

motivate them and what they would find important. Beware, though, of the form letter. One quick thank you note on a manager's personal stationery will have much more impact than a cup with the company's logo and a form letter. The way the reward is delivered can make or break the program—people can be more motivated by a single act of personal consideration by their manager than by a large cash bonus that is delivered poorly.

4. Adaptable

In addition, certain groups of employees may not be motivated by all of the company's incentives. As a result, it is important to offer a variety of incentives and recognition opportunities in order to meet the varying needs of the workforce. For example, Generation X employees (those born between 1966 and 1978 and who have earned a reputation for their lack of commitment to organizations in terms of time and loyalty) are more likely to be motivated by time off than money, while older workers will likely find the bonus incentives more attractive.

5. Relevant

The things that get rewarded are the things that get done. It is critical to decide what behaviors to reward and then to reward them consistently. Be specific as to why the reward is being given—what behavior occurred that is being reinforced?

6. Timely

The reward or recognition should be made as close to the time of the desired behavior as humanly possible in order to strengthen the link between the employee's action and the result to the company.

Conclusions

The most effective ways to motivate employees to achieve the desired goals of the organization include creating an environment with strong, respectful and supportive relationships between the organization's managers/supervisors and employees and a focus on genuine expressions of appreciation for specific employee achievements, service milestones and a day-to-day acknowledgement of performance excellence. In a nutshell, a positive employee reward and recognition strategy can be summed up by the following: nothing is better than a sincere "thank you for a job well done."

Appendix: Climate Assessment for Your Current Recognition Program

While not all-inclusive, your answers to the following questions will provide you with a "quick and dirty" overview of how well your organization is doing in terms of rewarding and recognizing employees.

Rate yourself honestly on the True/False questions listed below by noting a T or F beside

each statement:

1. ___ We show some form of appreciation to our employees every week.
2. ___ We measure what we reward and we reward what we measure.
3. ___ We compete, between teams, for gifts and prizes.
4. ___ Employees get to choose at least some of their projects.
5. ___ We reward behaviors linked to only one or two key organizational values.
6. ___ Employees see the rewards we currently offer as valuable.
7. ___ Employees generally think that our reward programs are silly or demeaning.
8. ___ Our organizational, departmental and individual goals are clearly defined and understood.
9. ___ Peers recognize and reward each other.
10. ___ We recognize small improvements as well as the major ones.

To score your answers:

Score one point for TRUE on questions 1, 6 and 10.

Score two points for TRUE on questions 2, 4, 8 and 9.

Score one point for FALSE on questions 3, 5 and 7.

Grand total of your points = _____

What Your Total Score Tells You:

13 – 14 points: EXCELLENT!! You're doing a great job.

11 – 12 points: Job satisfaction among employees is likely to be fairly high. Keep working to improve your retention rates.

7 – 10 points: Not bad, but you are still losing key people by missing essential components in your recognition program.

1 – 6 points: It is time to rethink your recognition program. There are more strategies

available to you.

SHRM wishes to thank Teresa A. Daniel, J.D. and Gary S. Metcalf, Ph.D. for contributing this paper. It is intended as information only and is not a substitute for legal or professional advice.

Teresa A. Daniel, J.D.—an employment lawyer, HR consultant and trainer, faculty instructor and scholar, author and speaker—is the president and owner of InsideOut HR Solutions PLLC, located in Ashland, Ky. (www.insideout.bz). Established in 1998, her firm provides people-related consulting and training solutions to small and mid-sized businesses throughout the United States. She has conducted a variety of workshops for both academics and business professionals in the United States, China, India, South America and Europe.

Prior to joining the academic world, Dr. Daniel spent 15 years working for a Fortune 50 company in the areas of law and human resources, with a strong focus on employment law, mergers and acquisitions and people-related issues. Dr. Daniel is also a member of the faculty of the Lewis College of Business at Marshall University in Huntington, W. Va., where she teaches courses about entrepreneurship, business law and ethics, as well as small business consulting. In addition, she is a part-time faculty member at both Kaplan and DeVry University where she teaches online courses in human resource management, business ethics and business law.

In 2004, Dr. Daniel was named a Fulbright Senior Specialist, and in 2002 she was honored as a Distinguished Alumnus at Centre College, Danville, Ky. She is the author of two books and numerous professional articles in the areas of entrepreneurship, with a particular focus on people and legal issues in a small business environment. Dr. Daniel can be reached via e-mail at tdaniell@alltel.net.

Gary S. Metcalf, Ph.D.—a management consultant, scholar, author and speaker—is president and owner of Interconnections LLC, a management consulting firm located in Ashland, Ky. (www.interconnectionsllc.com). The firm provides management consultation and training, ranging from organizational transformation to leadership, teamwork and communications. Clients have included the U.S. government (Office of Personnel Management), Fortune 500 corporations (e.g., Dow Chemical, Amazon.com), international corporations (e.g., SINOPEC in China), as well as local and nonprofit organizations. Prior to consulting, Dr. Metcalf spent 12 years in management in a Fortune 50 company and 10 years in nonprofit organizations.

Dr. Metcalf is a part-time faculty member in the organizational systems concentration at Saybrook Graduate School, in the School of Human Services, Administration and Management Division at Capella University, and with the Center for Leadership and Innovation at Ohio University Southern Campus. He currently serves as a vice president for the International Federation for Systems Research, based in Vienna, Austria. He has taught workshops and seminars in the United States, South America, Europe, China and

India. He is also the coauthor of a book titled The Management of People in Mergers & Acquisitions (with Dr. Teresa A. Daniel) and has written numerous journal articles in the field of organizational systems and intellectual capital. Dr. Metcalf can be reached via e-mail at gmetcalf@interconnectionsllc.com.

For more information on this subject, send an e-mail to the SHRM Information Center at infocen@shrm.org, please [click here](#) to ask the Information Center for help.