Incentive Research Foundation

Designing for Successes: Effective Design Patterns for Employee Recognition and Reward Programs

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With the majority of all U.S. businesses (84%) now using non-cash awards and the majority of top performing businesses (those with the highest revenue growth, customer satisfaction, and employee satisfaction) saying their executives support their non-cash recognition and reward programs as a competitive advantage, the eminent need to understand how to create effective programs becomes clear.

This begs the question: *What patterns exist in program design among effective non-cash incentive programs?* To this end, the Incentive Research Foundation (IRF) analyzed several years of relevant research to identify noteworthy design elements for effective non-cash recognition and reward programs.

Looking for Reward Opportunities: Non-Core Job Roles

According to a recent marketplace study conducted by the Incentive Federation, employee reward programs are now the most prevalent non-cash program type, with 72% of U.S. businesses having one or more programs.[1]

Employee reward programs continue to grow in popularity as organizations increasingly ask employees to take on additional roles and responsibilities that fall outside of their primary job duties. These "non-core" job functions can be as diverse as running innovation teams, increasing personal wellness, training other employees, increasing productivity, learning new techniques, or conducting business in line with corporate core values (e.g., honesty, integrity, grit, etc.). Because traditional compensation systems do not adequately address the prevalence or variable nature of non-core job roles, organizations are seeking non-compensation alternatives to recognize employees for engaging in these roles.

Notably, IRF research reveals that non-cash rewards are an excellent motivator for engaging employees in these non-core job roles.[2] Accordingly, in a marketplace where a company's success is predicated on how well it engages employees in these roles, program designers should explore engagement in non-core job functions as key opportunities in their employee-focused programs.

Setting Program Objectives: Focus on Goals

The emphasis of non-core job roles is evident in the objectives many organizations have for their employee recognition programs. While fifty years ago non-cash award programs were targeted primarily at two behaviors: safety and years of service, businesses now have a range of primary objectives for their employee rewards programs.

Data from the Incentive Federation indicates that the most common main objective of employee programs is *improving morale* (84%), followed by *improving productivity* (58%) and *improving customer satisfaction* (48%). Other objectives for employee programs include *recognizing years* *of service* (41%), *promoting innovation* (28%), *promoting wellness* (23%), *promoting safety* (14%), *rewarding completion of training* (9%), and *promoting cost control* (8%).[3]

Determining Who Gets Rewarded: Reach is Key

When program owners were asked to rank over a dozen different design priorities, the key design consideration for employee programs, by far, was *making sure a program rewards the right* people. This key consideration was followed by a focus on ensuring the programs *make recognition a part of day-to-day activities*.[4]

But who are the “right” people? Interestingly, the design priority seems to have shifted over time away from exclusively ensuring *only* the truly exceptional performing employees receive rewards to ensuring as many solid-performing employees as possible get rewarded. Moreover, top performing organizations echoed this with a focus on the *reach* of their programs. When asked whether their non-cash program design was structured with the goal of rewarding and recognizing the truly exceptional performers (exclusivity) or if it was structured with the goal of each participant receiving a recognition or reward in the program (reach), top performing companies were more likely to say *reach*. More than half (56%) of top performing companies said *reach* was the focus of their employee program design structure.

Developing Rules Structures: Goal-Driven

Organizations use many different rules structures to help them accomplish their objectives. When it comes to top performing companies in the United States (those with the highest revenues, customer satisfaction, and employee engagement), their approach is often goal-driven. As shown in the IRF’s findings, of these top companies, 68% reported that they use *goal-based* earning for their employee programs, with participants receiving individualized goal targets and earning awards when they reach these goals. Furthermore, 67% of top performing companies use *top performing employee* structures, 58% use *team recognition*, and 55% use *discretionary recognition*. A little over a third or more of top performing organizations (39%) use *service anniversary milestones*, and 34% use *nomination-based* structures.[5] Top performing organizations were significantly more likely to have goal-driven programs and significantly less likely than average businesses to have service anniversary programs.

Measuring Effectiveness: Leverage Multiple Metrics

IRF research shows that top performing companies leverage analytics more than their average performing counterparts when it comes to measuring the effectiveness of programs. In fact, more than three-quarters of top-performing firms reported that they fully leverage the performance data produced by their program, using analysis and insights to guide decision in employee programs.[6]

According to an Incentive Federation Program Design Study, the three performance metrics that are most often used to evaluate the success of employee reward programs are *productivity* (73%), *employee tenure* (49%), and *employee satisfaction* (49%).[7]

Funding the Program: Bottom Up

The exact budget varies greatly by organization size and focus of the program. Incentive Federation data shows the vast majority of businesses with $1 million to $10 million in revenue have employee program budgets of less than $100,000, while larger businesses budget $500,000 or more.[8]

Budgets can be created bottom-up (calculating the appropriate investment as a percentage of the participant's income) or top-down (by executives determining the budget based on prior year spending and then adjusting for overall firm financial performance). As it turns out, research conducted by the IRF indicates that top performing companies budget quite differently than average ones—top companies are 80% to nearly 100% more likely to use *bottom-up* or *income-based* funding. In other words, their budgets are predominately based on income, using a percentage of employee income to calculate their budgets. On average, an employee in a top performing business can expect to receive $170 per year in non-cash employee rewards, while employees in average performing businesses can expect to receive around $150.

Supporting the Program: Reach Outside

According to Incentive Federation research, the vast majority of businesses (two-thirds or more) use suppliers for awards and almost half look to suppliers for expertise in the best ways to recognize or motivate participants.[9]

IRF findings echo the importance of outside support—with over 60% of top performing companies going outside their walls for program support, they are statistically more likely than average companies to look outside for partner expertise.[10]

Program Consolidation: Key Design Pattern

As shown by an IRF study, top performing companies are two times more likely to have a consolidated program or single employee program across the company. That translates to 42% of top performing companies having a single program. More than *half* of top performing companies said they still had multiple programs, *but* that these programs were designed and managed under a common purpose.[11]

Determining Awards: Mix it Up

Data from the Incentive Federation indicates that the most prevalent types of awards in employee programs in the United States are *gift cards* (71% of businesses), *merchandise* (38% of businesses), *award points* (36%), and *travel* (30%).[12] It is important to note, however, that the vast majority (over 80%) of organizations use more than one award type for employees, with many using three to four types.

For top performing organizations with employee programs, company-oriented awards (ones that build brand loyalty and are easy to administer) were top in awards selections, followed by participant-oriented ones (awards allowing choice and providing a unique experience). [13]

Don't be quick to disregard nomination-based, top performing employee travel, though. Organizations are now becoming savvy about how to use top performer travel for all employees, not just sales.[14] The IRF's case study of a nomination-based, top performing employee travel program showed how one executive used it not only as a way to quickly re-focus the organization on key priorities, but also to offer his key leaders insight into the types of adaptive performance which were helping differentiate the organization.

Administration: Investment in Tech and Communications

From IRF research it is clear that top performing organizations allocate a significant portion of their budget to design and operation (estimated at 49% of the total budget on average).[15]

Integrating rewards and recognition into broader organization communications is key for top performing companies. Two-thirds of IRF survey respondents at top performing companies reported they do so for employee or sales programs. Top performing businesses are also more than 30% more likely than average companies to do so for employee programs.[16]

Three-quarters of businesses use some level of program-specific technology. One in five firms has strong program-specific technology in place, and a little more than 50% companies take a hybrid approach, using both program-specific technology tools and mainstream programs. One-quarter of companies do not use program-specific technology and instead rely on mainstream programs such as Excel.[17]

To view the full study, *Designing for Successes: Effective Design Patterns for Employee and Sales Programs,* please visit: http://theirf.org/research/designing-for-successes-effective-design-patterns-for-employee-and-sales-programs/2304/

Endnotes

1 http://www.incentivefederation.org/wp-content/uploads/2016/07/Incentive-Marketplace-Estimate-Research-Study-2015-16-White-Paper.pdf
2 http://theirf.org/research/irf-roles-of-engagement/1559/
3 Incentive Federation Program Design Study 2015
4 http://www.incentivefederation.org/wp-content/uploads/2015/10/1-Program-Goals-and-Objectives.pdf
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