The Use of Reward and Recognition Awards in Organizations

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Abstract:

We report the results of a survey of 170 designers and managers of reward and recognition programs in organizations. We use these data to explore the types of awards used, how they are chosen, as well as the appropriate size of these reward and recognition awards. We also explore the perceived effectiveness of these rewards. We close with a summary of our findings and a call for future research in rewards and recognition in organizations.

There has been limited focus by academics on the use of tangible incentives in organizations, those rewards that have market value but are not cash (e.g. things such as merchandise, travel, and prepaid cards). With a few exceptions, the field of academics has not caught up to practitioners in their study of this type of award (Jeffrey, Dickinson, & Einarsson, 2011). In this paper, we discuss current practices in the industry and attempt to draw some conclusions on their effectiveness. Specifically, we sought to find answers to the following questions:

1. What is the current usage of these award types?
2. What is the basis of award type selection used by the program manager?
3. What is the targeted value of the award (dollar/award) by award type?
4. How is this value of the award determined?
5. How effective is the award in achieving the company's objectives?
6. How is the award's effectiveness determined?

For the purposes of this paper, we consider an incentive to be performance based compensation. In other words, incentives are generally provided for some pre-specified activity, often including a required level or output of that activity. This paper focuses more on award usage in reward and recognition programs, some for behaviors specified ex-ante and some for what is known as "spot" recognition. While rewards are generally a part of incentive plans, we consider rewards to be a broader category including things such as tenure awards, attendance, etc. The scope of our paper is to look at the use of different award types for non-compensation based rewards and recognition.

In addition, we find it important to state at the beginning of this paper that we are studying rewards and recognition plans rather than straight compensation, as we know that a significant portion of certain employees' pay is incentive compensation (at risk pay, e.g. commissions, stock options, as well as other significant cash payments to senior executives).

Therefore our focus is on the use of awards for recognition and rewards for specific performance specifications (e.g. quarterly quotas, etc.).

This paper will proceed as follows. First, we will outline the methodology used, followed by the specific results of our survey that begin to answer the six questions we outline above. We then discuss our conclusions and close with a call for future research.

Methodology

We sent electronic mail invitations to employees who were identified as responsible for program administration in their firms by incentive industry participants. This invitation was sent out to approximately 2000 people, who were selected from existing contact lists of the Incentive Research Foundation. Of this number, 170 responded by taking our survey. While this may seem like a poor response rate, there are two reasons to believe that this rate does not damage the conclusions we can make from these data. First, while the email lists included approximately 2000 people, it is likely that there were significant redundancies on these lists, reducing the initial contact number. In addition, 170 was the largest response to any survey invitation that has ever been sent to these lists (Stotz, 2011). To be certain, we analyzed the demographics of the respondents, and found little reason to be concerned about sampling bias as the demographics of the respondents closely matched the industry.

The respondents that agreed to participate in our study were directed to a survey hosted on a Monmouth University server. This survey asked respondents about their use of awards in their organization in an attempt to shed light on the six questions outlined above. While we were

mostly interested in the use of travel, merchandise, and prepaid gift cards[2], we also asked survey questions regarding the use of cash in reward and recognition programs for the sake of completeness.

Original questions regarding practices were created by the authors of the paper along with assistance from the Incentive Research Foundation, a non-profit organization which studies the use of incentives in businesses. This first draft was then sent out for comment to a Delphi panel made up of industry experts in the use of rewards and recognition in organizations. Their feedback was used to create the final survey.

Results

In this section, we highlight information gained from survey respondents designed to answer our six questions. We start with award type usage, and a discussion of how award types are chosen. We then address target value and how this value is determined. We close this section of the paper with a discussion of perceived effectiveness of programs using each award type.

Before gathering information about award usage, we asked participants to provide basic demographic information. The first question we asked was which industry they represented. This can be seen in Table 1. The "other" category represented 35% of the total respondents; however there was no overriding pattern in the responses, which we believe indicates a representative coverage of industries. We also asked them to report their primary program audience (employee, channel, both) as well as the type of award they used for that audience

[2] Prepaid cards represent debit cards provided to individuals which can be used anywhere the card processer is accepted (e.g. VISA, MasterCard, or American Express) or gift cards to specific retailers (e.g. Best Buy, Macy's, Starbucks)

(cash, travel, merchandise, or prepaid card). In this context, "channel" represents what is known as a "channel partner", generally a distributor or re-seller. These responses can be seen in Table 2.

Panel A: Industry	
Finance/Insurance	13%
Incentives	7%
Manufacturing	16%
Technology/Telecomm	14%
Medical, Dental, Pharmaceutical	7%
Other/No Response	33%

Panel B: Firm Size	
< 100 Employees	30%
101 to 1,000 Employees	32%
1,001 to 5,000 Employees	18%
5,001 to 10,000 Employees	9%
> 10,000 Employees	11%
No response	1%

Table 1: Respondent Demographics

	Award Audience	Percent Using Award Type Within Audience[a]			
		Cash	Travel	Merchandise	Card
Both (N = 49)	52%	24.5%	57.1%	65.3%	61.2%
Channel Only (N= 18)	11%	16.7%	33.3%	55.6%	66.7%
Employee Only (N = 88)	29%	37.5%	27.3%	47.7%	67.0%
All Respondents (N = 170)		31.1%	36.5%	53.5%	64.7%
Percentage of All respondents using ONLY this award		6%	8%	10%	26%

[a] Will not sum to 100% due to some respondents using multiple awards

Table 2: Award Use by Audience

We also asked questions regarding the audience by employee level and function, the results of which can be seen in Table 3. Table 3 shows that in general, awards are used predominantly for individual contributors and rarely for senior management. This table also shows that sales employees are the most common target audience of award plans. Of interest as well is that the support functions (staff functions) such as IT, Marketing, and Human Resources are infrequent targets of award plans. Looking specifically at where cash awards are used, they follow the same general pattern as the other awards. They are most frequently used in for individual sales personnel.

		Cash	Travel	Merchandise	Cards
Level	Individual Contributors	71.7%	67.7%	69.6%	65.5%
	Supervisory Employees	54.7%	37.1%	57.6%	56.4%
	Front-Line Managers	52.8%	43.5%	55.4%	52.7%
	Middle Managers	45.3%	41.9%	51.1%	46.4%
	Senior Managers	35.8%	35.5%	35.9%	28.2%
Function	Sales	66.0%	77.4%	65.2%	60.9%
	Operations/Manufacturing	52.8%	24.2%	53.3%	47.3%
	Executive Management	32.1%	33.9%	31.5%	24.5%
	Customer Service	52.8%	29.0%	58.7%	47.3%
	Marketing	45.3%	29.0%	50.0%	46.4%
	Technology/IT	45.3%	25.8%	43.5%	39.1%
	Human Resources	39.6%	21.0%	44.6%	40.9%
	Finance/Accounting	41.5%	25.8%	40.2%	40.9%

Table 3: Usage of Different Awards by Employee Type (level and function)

Award Usage

Of note in Table 2 is the popularity of pre-paid gift cards, with 65% of all firms using this type of award and 26% using ONLY this type of award. This is consistent with information

from practitioners. Many incentive program managers are selecting pre-paid gift cards as awards, presumably due to ease of use and the believed preferences of employees. This can be seen in some of the free text responses provided by respondents. For example, one respondent provided the following reason for using cards: "Ease of providing rewards in an efficient manner and flexibility to the award recipient to purchase what they would like," while another said: "Ease of use. Polled employees and they felt that it was most useful." It is interesting to note that fewer respondents reported using cash, the other form of fungible award. The preference for cards relative to cash also suggests the ease of which cards can be implemented. This was indicated by respondents' quotes such as "ease of administration" and "ease of use." This raises the question as to whether a card is seen as a substitute for merchandise or as a substitute for cash, which was reported as the least frequently used award.

Travel was used by a large portion of firms as well; however this was mostly used for sales personnel (see Table 3). The pattern of responses regarding travel mostly dealt with the desire to provide a unique experience to employees receiving the award. Respondents also believed that travel was best at building loyalty in employees and channel partners. These conclusions can be seen in quotes such as "…achievers appreciate the face time with executives (during group incentive travel programs)," and "travel easily establishes an emotional connection which increases its effectiveness as a reward." Merchandise was also used by 53.5% of our respondents. The primary sentiment expressed here was that merchandise provides a tangible reminder of performance which carries what is known as "trophy value." This supports previous study findings on the ease in which people can discuss a merchandise award with colleagues, family, and friends (Jeffrey & Shaffer, 2007).

Overall, cash was used the least frequently as an award, with approximately 30% of companies responding that they used cash. Further evidence of the waning popularity of cash as an award is evidenced by the fact that only 6% of firms use ONLY cash in their award programs. We believe that this may be an artifact of the possible respondents, since we contacted people who had used or inquired about tangible incentives in the past. Therefore, we feel it premature to rule out widespread use of cash as an incentive. Many respondents stated they believed that a cash award was preferred by employees, so it is interesting that it is so infrequently used, especially relative to gift cards.

As we mentioned earlier, it is possible that cards are being used as a proxy for cash awards. This is supported by the similarity of comments regarding convenience and employee preference. While we do not have conclusive data on this, these results suggest that firms realize that when they provide gift cards they really are giving cash. A comment from a respondent is supportive of this who said "Actually, we use American Express Gift Cheques which can be used like cash." One piece of evidence that argues against gift cards as cash is their frequency of use with channel partners. This may however point to some feelings of inappropriateness of cash for channel partners rather than the substitutability of cards for cash. This would be a fruitful avenue for future study, by asking participants what they feel they are receiving and what program managers think they are providing when a card is used.

Award Values

Table 4 shows overall budget by award type. In general, the budgets for cash, merchandise, and prepaid cards are distributed relatively similar; however travel budgets are significantly larger than the other types of awards. The imputed median budget for travel approached $500,000 while the imputed median response for the other three types of awards was

less than $5,000. The reason for this seems obvious; travel awards (in general) are larger in size on average[3]. In fact, respondents in our survey reported a median of $2,500 for travel awards when asked the "most common" value. This is significantly higher than the median amounts for cash ($250), merchandise ($100), and prepaid cards ($50).

	Cash	Travel	Merchandise	Cards
No Response	9.4%	24.2%	19.5%	15.3%
< $10,000	24.5%	4.8%	31.5%	35.1%
$10,001 - $50,000	30.2%	11.3%	14.1%	20.7%
$50,001 - $100,000	5.7%	4.8%	8.8%	8.1%
$100,001 - $250,000	7.5%	11.3%	7.7%	6.3%
$250,000 - $500,000	9.4%	4.8%	5.5%	6.3%
$500,000 - $1,000,000	0.0%	12.9%	8.8%	2.7%
> $1,000,000	13.2%	25.8%	4.4%	4.5%

Table 4: Budget by Award Type

Table 5 shows some specific information regarding the most common value of different awards used in organizations. The top of this table reports categorical responses to the question "Which range listed below contains the most frequently used amount of the [type] award you use for Rewards and Recognition (per person per instance)?" The data in Table 5 supports our claims about travel as discussed above. The most common value of award used for cash, merchandise, and travel range between $100 and $500 while the instance of travel most reported was over $1000. As discussed above, we believe this is indicative of the types of programs that utilize the different types of awards.

[3] Travel awards are often for the recipient and their "significant other," and include hotel and travel expenses.

	Cash	Travel	Merchandise	Cards
No Response	7.5%	14.5%	15.2%	15.2%
< $100	26.4%	3.2%	35.9%	35.9%
$101 - $500	32.1%	8.1%	34.8%	34.8%
$501 - $1000	18.9%	8.1%	9.8%	9.8%
$1000 - $5000	13.2%	46.8%	2.2%	2.2%
> $5000	1.9%	19.4%	2.2%	2.2%
Median Amount	$250	$2,500	$100	$50
Median Percentage	3%	4.5%	2%	2%

Table 5: Value of Most Common Award by Type.

Table 5 also reports the medians of respondents' estimates of the "most common" value of the award provided. For cash awards, the data are skewed by some observations above $1000 (and one above $5,000) but the median reported value was $250, suggesting that most cash awards are of relatively small amounts. This conclusion is further supported by the relatively low median response (3%) to the question "As a percentage of an employee's income, what do you feel is the most effective level of cash award to use for Rewards and Recognition?" The 3% figure is also consistent with past research from WorldatWork which found that the median payout for rewards and recognition in the late 1980s was $867, or approximately 3% of annual pay (McAdams & Hawk, 1992).

The responses to these two questions may seem to be in disagreement, since the average income in the US is approximately $46,000, meaning 3% of income would be about $1,400, well above the median response provided in our question. While we cannot be certain about this, we believe that respondents answered the percentage of income question as a percentage of total annual income, while the median amount question triggered people to think of specific award

instances. This belief is supported by the wording of the median question which specifically triggered respondents to consider per person per instance.

When examining the same information for travel awards, the values for travel awards are significantly higher than those for cash with the majority of respondents in the $1,000 to $5,000 category. The median amounts are also significantly higher, both in absolute terms and as a percentage of salary. This suggests that travel is more likely to be used for "top performer program" type awards, in other words, awards for meeting specific goals or objectives (e.g. sales targets, top employee programs, etc.).

The average values reported for merchandise and prepaid cards are quite similar to each other. This suggests that merchandise and cards are used for similar purposes, perhaps predominantly spot recognition rather than a program of longer length as discussed earlier with respect to travel. They appear smaller than the responses for cash awards which is also suggestive of a smaller "one-off" type of usage (e.g. spot recognition), with cash and travel being reserved for the longer term award programs of a "do this – get that" nature.

We gathered additional data which is indicative of the different uses of travel vs. the other award types. We asked respondents to estimate the percentage of their budget allocated to rewards for specific behavioral time periods (e.g. daily, weekly, etc.). For travel awards, there were no values entered in for weekly or daily rewards, and only 6.5% of respondents placed a positive number under the heading monthly behaviors. Three of the four respondents who put in a positive number entered 10%, with the final respondent answering with 30%. These data suggest that there is limited use of travel for "spot" recognition. For merchandise and card awards, almost 10% of respondents placed a positive value in daily and weekly behaviors. For merchandise, the median percentage budgeted for providing daily awards was 20%, with 30%

being the median for prepaid cards. For weekly awards, these numbers were 15% and 25% respectively. Taken as a whole, these data strongly suggest that merchandise and cards are more frequently used for spot awards than travel and cash, with the latter award types reward for longer term behaviors (e.g. accomplishment of goals). This would also be a productive vein for future research, wherein respondents could be directly asked about the differences between spot recognition and longer term programs.

Beyond asking respondents their opinion about the right level of award (amount and percentage), we asked them to report on how they determined that amount. This information can be seen in Table 6. The interesting observations from these results surround the high levels of intuition and experience reported rather than data or experimentation. For all four award types, the percentage responding intuition or experience was over 50%. Considering the importance and the level of expenditures on awards (somewhere in the 3% to 5% of salary range), we find this a bit disturbing and a productive area for future research. In particular, these experiential responses could easily be affected by a number of well-known judgmental biases.

	Cash	Travel	Merchandise	Cards
Intuition	18.9%	16.1%	21.7%	30.9%
Experience	35.8%	37.1%	41.3%	30.0%
Observation	17.0%	32.3%	32.6%	20.0%
Data	18.9%	17.7%	9.8%	8.2%
Experimentation	13.2%	9.7%	8.7%	7.3%

Table 6: Basis for Estimate of Optimal Award Level

For example, past research has shown that people tend to seek out confirming evidence when testing hypotheses (Klayman & Ha, 1987). This means that individuals are more likely to search for evidence that their beliefs are correct than for evidence that their beliefs are incorrect. In addition, people interpret ambiguous information (information that could be supportive or unsupportive of their beliefs) as confirming their beliefs. These practices will tend to give people higher than supported levels of confidence in the "appropriate" level of reward and recognition.

Award Effectiveness

Our last goal was to gain information on the believed effectiveness of programs using different awards. These responses can be seen in Table 7. Of interest in that table is the significant portion of respondents who answered that they either don't know or have no good way to measure it. This is similar to the percentage of respondents who reported choosing the appropriate levels of award based on intuition. As with that question, we find that it would be productive to perform research on the effectiveness of different types of awards. The need for future research in this area is particularly important due to two facts. The first is that in difficult economic times, senior management wants to see hard numbers for return on investment. With no good way to measure this, people will be responding based upon their feelings. While we have no data on this, it may also be the case that some people who responded to this question were not basing their responses on hard data either and using some less rigorous measure of effectiveness.

	Cash	Travel	Merchandise	Cards
No response	7.5%	11.2%	10.1%	10.8%
Don't Know	5.7%	6.5%	9.0%	14.4%
No good measure	**30.2%**	**14.5%**	**23.6%**	**17.1%**
Significantly Negative	0.0%	0.0%	0.0%	0.0%
Negative	0.0%	0.0%	0.0	0.0%
Somewhat Negative	1.9%	0.0%	1.1%	1.0%
Almost None	3.8%	6.5%	6.7%	7.2%
Somewhat Positive	15.1%	17.7%	12.4%	17.2%
Positive	18.9%	24.2%	23.6%	17.2%
Significantly Positive	30.2%	19.3%	8.9%	17.2%

Note: Totals may not add to 100% due to rounding

Table 7: Perceived effectiveness of different awards.

Examining the responses in Table 7, most respondents perceive a positive result when asked "On average, what results are you experiencing with your _____ Rewards and Recognition programs?" While at first glance this appears to support the general findings that incentives increase performance (Besser, 1995; Cadsby, Fei, & Tapon, 2007; Condly, Clark, & Stolovich, 2003), it is interesting that almost no respondents replied that their reward and recognition program was having a negative effect. These results may also be impacted by judgmental biases.

These responses, if based on recall may be effected by the availability heuristic (Kahneman & Tversky, 1973). When people are asked to estimate the likelihood of an event, they judge this by the ease in which instances can be recalled. When asked how effective an award is, respondents are like to base their response on how frequently program managers hear

about people liking the award received. The likelihood is that program managers tend to hear positive stories more frequently than negative stories, meaning that their assessment of success will be biased towards the high end.

Closely related to this is the self-serving bias. People are much more likely to remember times they were right than times they were wrong. This will put a positive skew on self-reported results. In addition to this, there is strong personal motivation to report that programs for which a person is responsible are effective. This may also skew these responses upwards. These two potential biases and the importance of hard data also create the need for more rigorous research in this area.

General Discussion and Future Research

We began this paper with the intent to determine usage information on reward and recognition awards in organizations. As with a great deal of research, while we answered some questions, we also created a large number of questions that should be explored. This section highlights some of our key findings and the questions that we think need to be explored in more depth.

We discovered that many program managers are indeed using pre-paid cards for their perceived ease of use and the belief that employees value the freedom of choice provided. It is clear that these rewards do offer employees choice, but we feel that it would be beneficial to examine the perceptions of this award. Specifically, we want to know what companies feel they are providing employees (e.g. material goods as appreciation and acknowledgement or simply a cash payment), and whether employee perceptions are consistent with those beliefs.

We also found that travel remains a popular award for employees, with 36% of respondents stating that they used travel. The usage was particularly high in sales employees (> 70%). We asked a follow up question regarding group vs. individual travel and found that the majority of travel (approximately 70%) is group based but that the mix is changing to more individual travel (e.g. not with other members of the firm). This has implications for program design as well as destination and program management. Further research here should focus on the types of individual travel that are being used as well as the general program rules for receiving these awards (e.g. spot vs. goal based).

We are concerned that a large number of respondents use intuition or experience when determining the "right amount" of awards. There are many reasons to try to build general knowledge about this based upon solid scientific evidence as intuition can be influenced by multiple judgmental biases. While the percentage seems small (around 3%) this is still a significant amount of funds that should be spent based upon the best knowledge available. We also found that the use of these awards in organizations is viewed as having positive results. This is encouraging, but we are concerned that much of this may also be based upon personal opinion rather than hard data. We would like to see additional research confirming the return on investment and return on objectives of recognition and reward programs.

A final point that we would like to see studied is how different awards are used in different types of reward and recognition programs. We speculated that travel was mostly used for goal or quota based programs, whereby employees are awarded for achieving a given level of pre-specified performance. In contrast, we concluded based upon our data that merchandise and cards were more likely to be utilized as spot recognition. We believe that future research should test these assertions.

Conclusion

While the use of non-cash awards in reward and recognition programs may be a small portion of the total recognition and reward budget, it is still an important element. This study is an effort to highlight the use of these various non-cash awards and begin to answer six basic questions. We hope that this research will serve as an invitation to other researchers and practitioners to study some of the questions raised in this paper. We strongly feel that there is a shortage of rigorous research on the use of tangible rewards (e.g. non-cash) in organizations. This study confirms that many firms are utilizing these types of awards but may not be basing this usage on high-quality information.

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