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2019 Voice of the Market: The Use of Non-Cash Rewards & Recognition

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2019 Voice of the Market: The Use of Non-Cash Rewards & Recognition is a qualitative study of incentive program owners that explores what they prioritize when designing, implementing, and executing incentive programs. The objective of the study is straightforward: listen to the people designing and operating reward and recognition programs on the front line. Interview subjects could be identified by various terms, including program managers, end users, and program owners. For ease and clarity in this report, we refer to these individuals as *program owners*.

The research team interviewed forty-five program owner representing a broad cross-section of the U.S. business market and a range of non-cash reward and recognition programs. Respondents spent anywhere from $25,000 to millions of dollars annually on programs that included one or more of the following types of rewards: travel, award points, merchandise, gift cards, and branded items.

During each hour-long interview, researchers invited program owners to discuss various topics of interest – what they're doing, why, how they're measuring the results, use of vendors, and resources for expertise. Simultaneously, researchers evaluated the natural language, emphasis, emotion, interest level, and topical sophistication of the program owner. The goal was to understand the program owner's perspective: what buyers consider to be relevant and compelling.

The majority of program owners interviewed this year appeared to be largely unaware of the deep experience and expertise that exist in the incentives industry. If using an outside partner, it is to source rewards or manage the program "platform," rather than engage in program strategy or design. This analysis reflects the audience who participated in the research. Program owners with deep partnerships for the design and execution of their programs would likely have different perspectives in some areas and would warrant a separate investigation.

Building on the findings from the *2018 Voice of the Market* study, we found that program owners are largely satisfied with the success and outlook for their programs. Ideas to keep programs fresh and utilize competitive benchmarks are areas of interest that would offer an industry member the opportunity to engage and add value. The opportunity to develop a partnership for program design and execution would rest on a compelling demonstration that things can be measurably better than the current state. For the broader incentives industry, engaging program owners in design education, industry events, and networking opportunities are approaches likely to be well-received and successful.

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1.   Incentives & Rewards Are Broadly Defined

U.S. businesses take an expansive view of incentives, rewards, and recognition. Program owners utilize a wide variety of tools in the pursuit of people-driven results, tailoring their strategy based on the business objectives and the audience. Reward and recognition devices often include team celebrations, gift cards, trips (group or individual), points to be redeemed for "prizes" or gift cards, cash rewards, merchandise (including branded items), and less tangible rewards such as time off or free lunches. Professional development opportunities in line with the employee's role (e.g., advanced training courses) may be offered to encourage retention as well as long-term career development.

Program owners might use one or all of these rewards and recognition, depending on the type and scale of their program(s), when the application of rewards and recognition is done in a deliberate and strategic way.

Gift cards are used when ease of administration is a priority, or a large number of participants will be earning a reward.

Merchandise is used when excitement and "buzz" are important, and the company prioritizes a reward experience that is long-remembered.

Travel is the penultimate reward – expensive and difficult to administer but offering enormous impact from an experiential perspective.

Team events and in-house prizes build on teamwork and the feeling of celebration – impacting a large audience without a significant expense.

2.   Dynamic Programs

Companies take a highly flexible and purposeful approach to their reward and recognition programs. Long-term initiatives, such as annual top performer programs or ongoing employee recognition programs, are often supplemented with shorter-term programs meant to drive immediate results on business priorities. For example, one company that operates a large number of franchise restaurants will launch month-long programs to address performance issues as they occur, such as increased wait time or poor attendance. Longer-term programs are in place to address issues of retention, customer satisfaction, and general morale.

Program owners of all experience levels are thoughtful about tailoring their reward and recognition initiatives to achieve desired results. "Softer" programs that are meant to improve morale, reinforce organizational culture or encourage teamwork, are designed very differently than those meant to drive sales results, productivity, or other "hard" performance measures. Programs designed to address culture or morale rely more heavily on team events and recognition activities to encourage bonds between coworkers and to deliver results without significant expense in rewards, although moderate-value rewards may be included in the design. Performance-based programs have a more definitive payoff for the firm and are more likely to be self-funding, allowing for more liberal use of tangible rewards, including the large group travel events commonly used for sales top performer programs.

3. Test & Learn

A large proportion of the reward and recognition activity within U.S. businesses is managed without external design support. As we noted in 2018, many program owners are wholly unaware that this type of expertise is available to them. Those who are aware (or have become aware) often express skepticism that an outside expert would have much to offer, as that person would not have the deep understanding of the firm or the target audience that the program owner has developed over time.

Most companies begin their use of incentives with home-grown reward and recognition programs. Over time, program owners develop a strong understanding of how to motivate and influence their target audiences by trial and adaptation. While metrics are often anecdotal (how excited and engaged were participants?), program owners are vigilant about the design approaches and tactics that yield stronger results and edit programs period-over-period to maximize their effectiveness. This is particularly true for short-term programs with narrow objectives – program success is more immediately discernable, and learnings can be applied to the next program in quick order.

4. Competition

While executive and participant satisfaction are key success measures for many programs, there is an additional benchmark that program owners want. Many note it is important to their business to offer rewards and recognition on pace with their competitors. If competitors have strong rewards and recognition, program owners view their own incentives as a minimum requirement for attracting and retaining employees or salespeople. Rewards and recognition are also tied to the company's ability to achieve customer-centric objectives, including satisfaction, loyalty, and profitability.

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Within a broader conversation that often emphasizes participant engagement and enthusiasm, there is an interesting nuance revealed within the desire for competitive benchmarks. Program owners, while wanting to make sure their program is competitive among their rivals, also want to ensure they are not overspending on rewards and recognition. While questions about "appropriate" levels of investment in reward and recognition are common from CFOs and Controllers, Human Resources is usually more focused on the cultural and engagement aspects than the hard financials. Competitive benchmarking is one area that suggests investments in employee engagement are informed by real, data-driven parameters.

Another finding of note regarding competitive benchmarking is the type of companies considered to be competitors. For program owners focused on engaging career professionals, within-industry comparisons are likely to be relevant. For those trying to engage workers whose skills are highly transportable (retail, service, etc.), the "competition" may be defined as other regional employers competing for the same talent.

5.   Program Engagement/Communication

Consistent with the *2018 Voice of the Market* analysis, program owners are largely pleased with the design and effectiveness of their reward and recognition programs. There is not a large perceived gap separating their initiatives from those designed by others, and there is general skepticism (though not outright dismissal) that their programs could be tweaked to deliver demonstrably better results.

There is, however, one thing many program owners note as an area for improvement: the ongoing communication, and therefore participant engagement, in their programs. This opportunity is driven by a few dynamics. One is the level of "noise" program communications are competing with. Everyone is inundated with Human Resources, operational, and administrative communications – breaking through the clutter can be an impossible task. Another challenge is how to communicate with employees in the first place. This is especially true in work environments where employees are on the move – retail, labor, and service workers can be especially difficult to engage, as they are not in front of computers all day long. Finally, based on how technologically adept a worker population is, there can be a vast chasm in communication preferences and abilities – presenting an enormous challenge for program owners. Some employees expect to connect and communicate with their employers via mobile devices, while others have no interest or tolerance for the same. Program owners in environments with highly diverse employee segments must solve for program communications via whatever media employees are most likely to consume – mobile, digital, paper, and verbal may all be critical.

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6.   Sources of Information

With such a large swath of reward and recognition program owners learning on the job, in real time, understanding what information they "pull" and from where is critical for an incentives industry looking to engage. Most interviewees indicate they navigated design and execution on their own, and through critical thinking and common sense were able to make a decent start. Through a "test and learn" approach, their programs have improved over time, with feedback from executives and participants alike informing future program design.

These front-line program owners do not have strong professional networks in place specific to reward and recognition. Many do not know anyone else with responsibility for designing and operating a program; some have one or two companies they reach out to for ideas. It is interesting to note that the program owners who describe this strategy for building their knowledge base refer to the relationship at the company level (as opposed to having a friend or colleague at another company), and it is usually a company in a different industry.

Paradoxically, despite a strong network of like-minded professionals (or any real effort to build such a network), program owners' preferred method of learning – by far – is "word of mouth." There is

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immense interest in talking to other companies and exchanging approaches and ideas. In the absence of external networks, program owners talk to peers and participants within their own company to develop new ideas and improve program design and execution.

Many program owners indicate they have looked online for information and best practices in rewards and recognition. When asked if their searches were successful and what they found, reviews were faintly positive. Typically, program owners report they found some "stuff," but are very vague in terms of the relevance, value, and source of the material. Most are not able to name any resources or sites they have visited and have not identified any excellent information sources they intend to leverage in the future.

7.   Rewards Administration

Program owners work diligently to ensure rewards are meaningful to participants and convey the desired message on behalf of the firm. There is intuitive recognition that memorable rewards will have a more lasting effect on engagement, and that "memorable" will be different person-by-person. Many program owners noted that even the recognition aspect of a reward needs to be personalized, as some people may enjoy public acknowledgment while others prefer a more individualized approach.

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This year's research also confirmed the *2018 Voice of the Market* findings that program owners make a strong distinction between cash compensation and non-cash reward and recognition. Non-cash rewards are viewed as much more likely to be remembered and specifically appreciated by the employee as compared to cash. Even with this appreciation, program owners do sometimes incorporate cash rewards into their programs. Two factors generally contribute to the use of cash-like rewards.

First, for some audiences, highly fungible rewards are considered more appropriate than less flexible rewards – a conscious trade-off between what is needed by the reward earner and the likelihood of long-term memorability of the reward. For example, programs for front-line workers in customer service positions, such as retail workers, servers, and call center representatives, will often include cash or open loop gift cards in consideration of the financial realities of their audience. (Open gift cards – those that can be used at any merchant – are often viewed as cash awards but are easier to administer than true cash.) These programs may also include gift cards for gasoline, groceries, and other utilitarian merchant categories – because the income level of the audience makes these rewards more relevant and compelling than a gift card to an expensive coffee house or an electronics retailer.

Second, program owners are under pressure to balance the requirement to manage rewards distribution across a population of participants with the desire to make rewards highly on-point and meaningful to each individual person. When the inevitable trade-off is required, ability to scale prevails in most cases. Program owners believe that highly-personalized rewards would be better for the participants, but not to a degree that would offset the cost of administering the selection and issuance of those rewards.

8.   Managing @ Scale

When managing rewards at scale, program owners make similar trade-offs between what they would like to do and what is practical throughout the design of their programs. Yes, it would be ideal to launch the program with a team meeting and an invigorating speech from a beloved executive. However, that would be too disruptive in the reality of our work environment that includes shift workers who need to be serving customers across multiple locations during business hours. Yes, it would be great to have frequent reminders and updates about the program, highlighting the performance milestones of employees and getting the broader participant base really invested in the program. However, there is no one who has the time to craft those communications, and no single platform (available to us) would reach all of our employees.

Program owners frequently suspect that manager engagement has a measurable impact on the engagement and performance of their employees, but rarely do they have mechanisms in place to test this hypothesis.

As noted in previous IRF research, program owners often point to front-line managers as the make-or-break factor in the success of their initiatives. With program design limited by the realities of executing at scale, managers are the face and champion of the program and have the ability to engage employees regularly and in person. Program owners frequently suspect that manager engagement has a measurable impact on the engagement and performance of their employees, but rarely do they have mechanisms in place to test this hypothesis. Regardless, engaging managers as sponsors of reward and recognition is a need that traverses industry and company size, and program owners continue to find themselves without a practical solution.

9.   Success Measures

There are two distinct approaches program owners use to understand the success of their programs. The measurement tactic corresponds to the type of program more than any analytical orientation of the program owner. Broader organizational programs designed to improve morale, reinforce strong company culture, or build an environment of teamwork often have no KPIs assigned. Program owners may review company-wide engagement surveys, gather feedback in the form of focus groups and roundtables, and evaluate program participation results to build a picture of program success. While they prefer to be prepared with this data, they note it is rare that they are asked to review

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this data with the management team. Instead, there tends to be broad support for these initiatives at the executive level, and programs are accepted as part of the organizational culture.

The second approach is specific to performance-based programs. These include sales and channel incentive programs, as well as safety and productivity rewards and recognition for employees. Programs that are designed to impact specific KPIs will be measured by their success in delivering the results desired. Because these programs emerge from a need to address metrics, there is a natural measurement system (and baseline of performance) already in place. Program owners do not spend much time or energy analyzing results, as they are often self-evident by the nature of the programs.

Across all types of reward and recognition, the primary success indicator used by program owners is the energy and enthusiasm of the participants. The ability to "get people talking" is a paramount achievement, regardless of the type of program or reward. While imprecise and perhaps easily dismissed by advocates of more stringent techniques, it is a universal ambition among program owners and the ultimate representation of the true goal of these programs – to fully engage an audience in a unified objective.

10.   Pride of Purpose

As with prior IRF studies, the *2018 Voice of the Market* interviews demonstrated that reward and recognition program owners invest in and are extremely proud of their initiatives. Many are self-taught program designers, but their deep desire to engage their participant audience in meaningful ways means they have put great effort into determining the most effective ways to energize their participants around the company objectives. They have rich and critical expertise on the microcosm of their firm – what matters, how to drive the needed outcomes, and what works with their audiences.

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These companies do not perceive a meaningful gap between their reward and recognition efforts and programs in other companies – any observed deficits would be corrected relatively quickly to remain competitive in the market. The goal is not to do a program that is "good enough" but to drive outcomes by emotionally engaging participants in the program objectives. This is evident in the way program owners speak about their participants, their programs, and their plans for the future.

These program owners are largely unaware of the incentive industry and the services and expertise available to them therein. While they have had to stretch to learn how to apply for reward and recognition programs most effectively within their organization, there is a strong sense that they have successfully accomplished what they were tasked to do. Hard-won expertise combined with the ongoing success of their programs creates a level of satisfaction with the status quo.