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How do Recognition Programs Impact Employee Engagement and How have Companies with a Large Global Footprint Structured such Programs to Drive Results?

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Abstract

As the war for talent continues to escalate, employee recognition has become a critical component of companies' total rewards and staffing strategies. Employee engagement is now the largest concern of many companies' HR departments and it is widely suspected that recognition has an important role to play in fostering engagement. While recognition is not new, it is finally becoming more strategic as programs align recognition with business objectives and desired behaviors.

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EXECUTIVE SUMMARY

RESEARCH QUESTION

How do recognition programs impact employee engagement and how have companies with a large global footprint structured such programs to drive results?

INTRODUCTION

As the war for talent continues to escalate, employee recognition has become a critical component of companies' total rewards and staffing strategies. Employee engagement is now the largest concern of many companies' HR departments and it is widely suspected that recognition has an important role to play in fostering engagement.[1] While recognition is not new, it is finally becoming more strategic as programs align recognition with business objectives and desired behaviors.

THE IMPACT OF RECOGNITION PROGRAMS

Employee engagement has been shown to be a significant factor in improving a variety of organizational outcomes such as customer loyalty, profitability, employee productivity, and retention (see Figure 1).[2,3] Employee recognition, in turn, has been found to positively relate to employee engagement,[4] with one study suggesting that 41% of the variation in employee engagement is attributable to the strength of recognition an employee receives.[5]

Furthermore, recognition programs, on their own, can help instill and reinforce corporate values, help with retention, and positively impact financial results.[6] They also boost productivity, engagement, profit margins, customer retention, employee retention, ROE, and ROA.[7]

RECOGNITION PROGRAM LANDSCAPE

Length of service is still the most commonly recognized employee achievement, with a prevalence of 84% among companies with recognition.[8] Other programs that round out the top five include above-and-beyond performance (75%), peer-to-peer (42%), programs to motivate specific behavior (41%), and retirement (34%). These need not be mutually exclusive, as, for example, peer-to-peer formats can be used to motivate specific behaviors or highlight great performance. Since 2008, programs to motivate particular behaviors have seen the most significant growth.[9] At the same time, programs have become increasingly aligned to strategic business objectives.[10,11,12] Companies with strategic recognition report that 37% of employees are highly engaged, versus 25% where recognition is non-strategic.[13]

Many companies have numerous recognition programs: only 7% of companies have one recognition program, while 85% have between two and six.[14] Furthermore, many have both formal and informal programs. Leveraging both formal and informal means of praise can allow companies to cultivate a culture of recognition, and to make instances of recognition meaningful (see Figure 2).[15]

CASES

1) KPMG's Encore program

Amid legal and regulatory challenges in the early-to-mid 2000's, KPMG endeavored to improve employee morale and engagement through numerous initiatives, one of which was its Encore recognition program.[16] This cloud-based strategic recognition program, which began locally and was soon rolled out

nationally, allows managers and employees to provide on-the-spot recognition by nominating fellow employees for behaviors or results that are consistent with company values. The award structure has five different levels, depending on the employee's contribution: a non-monetary "Thanks" e-card, and gift cards or equivalent value gifts of "Cheers" ($25), "Applause" ($100), "Bravo" ($200), and "Standing Ovation" ($500).[17] Each employee can receive up to $1000 a year in rewards. KPMG found that engagement and retention at sites which first had the program were higher than at those without it. Further, the firm has aligned rewards with performance evaluations—employees who score highly should be recognized accordingly.

In 2008, the plan was expanded to the UK with the help of Globoforce. The local employment rewards and recognition schemes were not viewed as strategic and, further, the influence of those programs was hampered by an existing bonus scheme that was based on individual performance. After one year, 25% more employees were receiving recognition rewards and the number of awards handed out grew by 165 percent.[18] Today, KPMG in the UK notes Encore as a benefit in its job listings.

2) E.On's Buzz program

E.On, a German utility company with presence in 30 countries and 2014 revenues of €111.5 billion, implemented a peer-to-peer recognition program in 2013. The program, Buzz, was delivered by a subsidiary of Sodexo, P&MM. With this program employees can access a dedicated website to send a "buzz,"—a personalized thank you note that can be either printed or electronic. The buzz can go out to individuals or to several team members for doing something seen as genuinely helpful for other employees or the team. Every staff member is allowed to nominate anyone else and E.On's executive board members regularly participate. In the two years since implementation, 76% of employees have received a buzz from either coworkers or managers, and 53% have requested one for a peer. Over this time, the company found marked increases in motivation (13%), the number of employees feeling valued (33%), and employee understanding of the business vision (31%).[19]

3) Fairmont Hotels & Resorts

In the mid-2000s, focus-group feedback on Fairmont's recognition efforts showed employee dissatisfaction with numerous aspects of the program: the scope did not reach all employees, team members wanted more opportunities to recognize peers immediately, and they wanted to do so in a more personalized way. Further, employees wanted nominees for monthly or quarterly recognition to be consistent role models. In response, the firm launched the Serviceplus Colleague Recognition Program. The program offers award options ranging from $10-$50, which the employee may redeem from a central website or over the phone. Award levels include "Memory Maker" for thoughtfulness or creativity, "Star of the Month" for consistent performers who demonstrate company values, as well as a public "Bravo" callout for employees who are executing well in smaller ways. Follow up surveys since the May 2007 launch showed "significant increases" in feelings of recognition from employees.[20]

CONCLUSION

Recognition programs are becoming powerful avenues for exerting positive change in the workplace. What was once a nice-to-have practice is becoming a driver for improving employee engagement and a host of other factors that impact the bottom line, when properly executed. By making the programs strategic, leveraging peer-to-peer recognition, and garnering top executive buy-in, companies can maximize their return on investment on these programs.
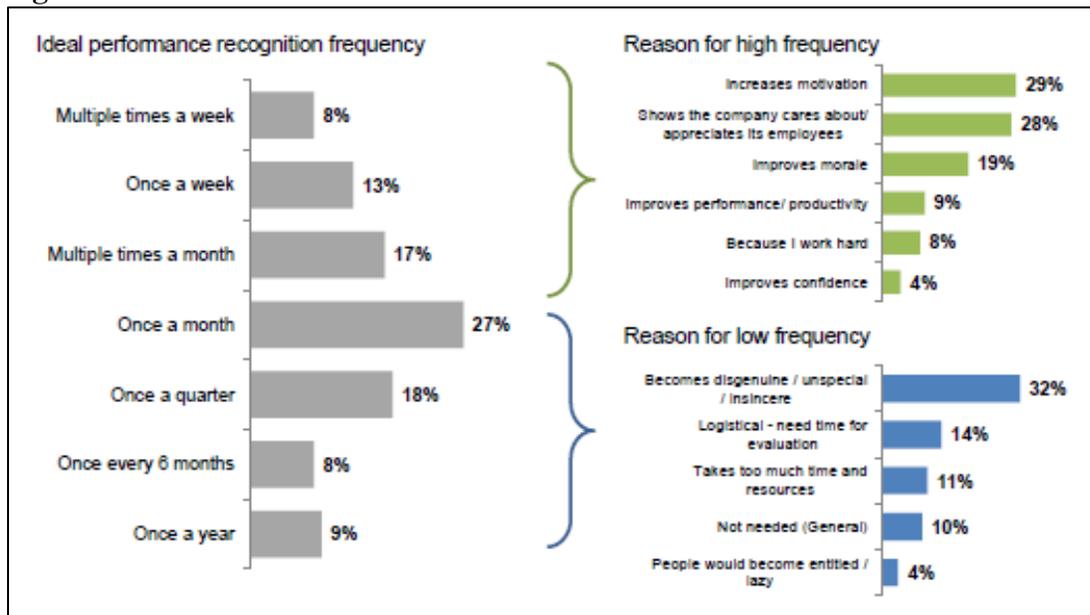
APPENDIX

Figure 1
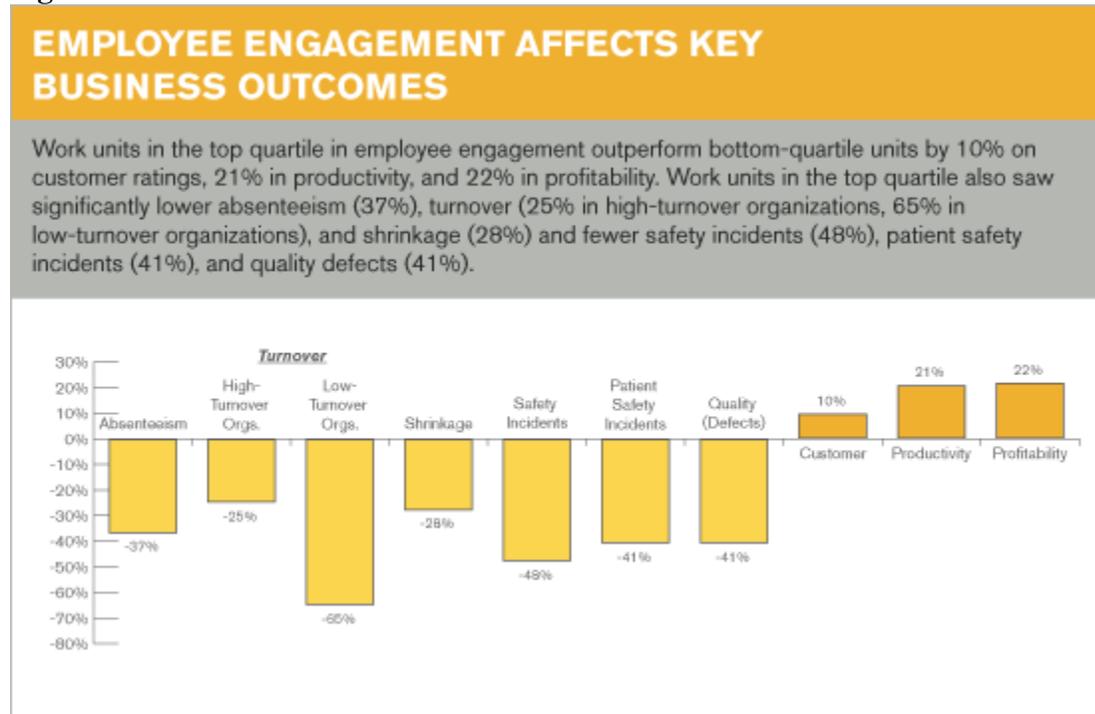
Source: Reilly, R. (2014). Five Ways to Improve Employee Engagement Now. *Gallup Business Journal*, 1.

Figure 2

Source: Kaufman, T., Chapman, T., Allen, J. (2013). The Effect of Performance Recognition on Employee Engagement. *Cicero Group*.

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