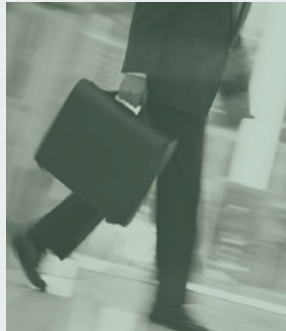


# The Use of Reward & Recognition Awards in Organizations

Advancing <sup>The</sup> SCIENCE of MOTIVATION & incentives through RESEARCH

## Bob & His Awards Choices

Bob is the program administrator for his manufacturing company's 1000+ employees and distribution channel. Bob's typical day is spent reviewing gift card purchase redemptions for multiple "spot award" programs of \$100 or less, as well as planning for the end of year trip (with meeting) held concurrently to honor their top distributor reps and internal sales people (budget: approximately \$2,500 per participant).



Although fictional, "Bob" puts a face on how a majority of 170 designers and managers of reward and recognition programs responded in our recent study entitled "The Use of Reward and Recognition Awards In Organizations." Relating to the use of cash, travel, merchandise and pre-paid gift cards in reward and recognition programs, we looked for answers to these six questions:

1. What is the current usage of these award types?
2. What is your basis for award type selection?
3. What is the targeted value of the award (dollar/award) by award type?
4. How do you determine the value of the award to offer?
5. How effective is the award in achieving your objectives?
6. How do you determine award effectiveness?

The following was developed in joint-cooperation between the IRF and the Incentive Federation and provides highlights of this valuable study. For the full report, you can download it from the IRF website: [www.theirf.org](http://www.theirf.org)



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## WHO USES THESE AWARD TYPES?

Our survey's participants manage recognition and rewards programs focused on achieving **specific performance outcomes**. Not to be confused with normal sales commission bases, stock options, or other types of cash payment arrangements, these programs can be considered "Classic Incentive Programs" in the truest sense. Survey participants came from the industries shown on the right:

INDUSTRIES REPRESENTED	Percentage
Finance/Insurance	13%
Incentives	7%
Manufacturing	16%
Technology/Telecommunications	14%
Medical, Dental, Pharmaceutical	7%
Other/No Response	33%

Note: Companies ranged from less than 100 to more than 10,000 employees. See the complete study for more details.

As one might expect from a classic incentive program, respondents overwhelmingly cited sales personnel as their most frequent program targets. Note the low involvement of people from executive management and other support functions as indicated in table 2 below.

Table 2	CASH	TRAVEL	MERCHANDISE	PRE-PAID CARDS
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%

True to the classic definition, table 3 below shows that a majority of the programs are for internal company employees and people within the company's distribution or sales channels.

Table 3	CASH	TRAVEL	MERCHANDISE	PRE-PAID CARDS
Employees Only	37%	27%	48%	67%
Channel Only	17%	33%	56%	67%
Employees & Channel	25%	57%	65%	61%
Use Only This Award	6%	8%	10%	26%

The award types they use are widely dispersed. Note the *Use Only This Award* amounts in table 3: 26% of the respondents said they use pre-paid cards exclusively, more than double what they said about cash, travel and merchandise.

**WHAT AWARDS DO THEY USE?**  
(and what's their value?)



**BUDGET BY AWARD TYPE**

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%
\$50,000 - \$100,000	5.7%	4.8%	8.8%	8.1%
\$100,000 - \$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

As shown in table 4, the budgets for cash, merchandise and pre-paid cards are fairly similar. It is not until budgets reach the \$100,000 - \$250,000 range and beyond that travel takes over in terms of largest budget amount.

**VALUE OF MOST COMMON AWARD TYPE**

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 - \$1,000	18.9%	8.1%	9.8%	9.8%
\$1,000 - \$5,000	13.2%	46.8%	2.2%	2.2%
>\$5,000	1.9%	19.4%	2.2%	2.2%
Median Amount	\$250	\$2,500	\$100	\$50
* Median % of Income	3.0%	4.5%	2.0%	2.0%
Average Per Award Amount	\$732	\$3,115	\$206	\$240

Table 5

As shown in table 5, a *Median Amount* of \$2,500 for travel awards was reported – much higher than cash (\$250), merchandise (\$100), or pre-paid gift cards (\$50). *Average Per Award Amounts* by type (table 5) suggest that cash, merchandise and gift cards are used for spot awards (such as weekly behaviors) while travel (\$2,500 *Median* and \$3,115 *Average*) relates to annualized goal attainment, hence requiring a larger budget outlay. The full report provides insights as to why cash is triple the amount of merchandise and gift cards.

\* Median % of Income is the amount given by participants when asked the question, "As a percentage of employee income, what do you feel is the most effective level of cash award to use for Rewards and Recognition?"

**WHY DO THEY USE THEM?**



Table 6

Ease of use				
Flexibility				X
Ease of administration				X
Provide unique experiences		X		X
Build brand loyalty		X		
Emotional connection		X		
Tangible reminder			X	
Trophy value			X	
Employee preference	X			

Program administrators cite gift cards as being "easy to provide rewards efficiently." Award recipients can use them to purchase what they would like. When it is highly desirable to provide a unique experience, build loyalty to the brand and establish an emotional connection, travel gets the nod. Given that spot awards occur frequently and are usually at lower dollarized amounts, something that is easy to administer is preferred.

**Why Do They Use Them? (Continued)**

Pre-paid gift cards meet this need well from an administrative standpoint. Merchandise is viewed as the best tangible reminder, supporting previous study findings (*Jeffrey & Shaffer, 2007*) on the ease in which people can discuss receiving merchandise awards with colleagues, family, and friends.

**HOW DO YOU KNOW THEY'RE EFFECTIVE?**  
(and what's your basis?)



**BASIS FOR ESTIMATE OF OPTIMAL AWARD VALUE**

Table 7

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%

When asked to report how they determined the optimal amounts to budget for their reward and recognition programs, the percentage responding *Intuition* or *Experience* was over 50% across all four award categories.

Given that award expenditures range from 3%-5% of salaries, this is an important area for future research, especially when considering how respondents answered our questions regarding award effectiveness. As shown below, the majority of respondents do not have what they consider good measures to determine the optimal award value on which to base their programs:



**PERCEIVED EFFECTIVENESS**

Table 8

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%

The good news is that almost no respondents indicated that their reward and recognition programs were having a negative effect; further, a large number of respondents said their programs garnered from *somewhat positive* to *significantly positive* results.

**WHAT ARE OUR TAKEAWAYS?**

The administrators generally apply intuition and experience to make program decisions and don't know (or have no good measure) of whether their programs are effective or not. Given this finding and others, the following page presents our recommendations for future research efforts.

## INSIGHTS & IMPLICATIONS



### Group Vs. Individual Travel

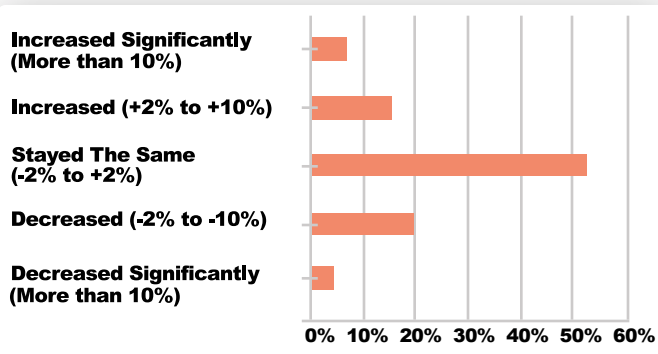
Thirty-six percent of respondents stated they used travel, particularly with sales employees. Follow up questions revealed that approximately 70% of this travel was group based;

however, it appears to be changing to individual travel somewhat. This finding has implications for program design, destination and program management.

**Additional research should focus on types of individual travel and the general program rules for receiving these awards (e.g., spot vs. goal-based).**

### Travel Budgets

Over half of the respondents said their incentive travel budgets have remained the same in the past two years. Although very closely matched, in composite, more said their budgets have decreased than have increased.



Vs.



The average values reported for merchandise and prepaid cards are very similar, suggesting that merchandise and cards are used for similar purposes, namely, spot recognition programs. For example, almost 10% of respondents placed a positive value in daily and weekly behaviors for these two award types.

For merchandise, the median percentage budgeted for providing daily awards was 20%, with 30% being the median for prepaid cards.

### Merchandise Vs. Pre-Paid Cards (Cont.)

For weekly awards, these numbers were 15% and 25% respectively. Taken as a whole, these data suggest that merchandise and cards are more frequently used for spot awards than travel or cash.

**Future research on the differences between spot recognition and longer-term programs would be beneficial.**



Vs.



Some participants indicated they polled their employees about their award preferences, with a preference for cash indicated. Given that cash was used the least frequently while gift cards used the most frequently, we can assume that gift cards are viewed as a substitute for cash awards.

**Future research testing this assumption may be of benefit to incentive program practitioners.**



Vs.



A large number of respondents use intuition or experience when determining the right award amounts.

Further, participants view their programs as having positive effects despite not having any real means to prove it.





**Additional research confirming ROI and return on objectives of recognition and reward programs is called for.**

## METHODOLOGY

An email invitation was sent to approximately 2,000 managers who were identified as responsible for administering their company's incentive programs. Of this number, 170 participated in the survey – the greatest response rate achieved with this particular audience and survey format. Responses were recorded in an online survey hosted on a Monmouth University server. The survey asked respondents about their use of awards in their organizations per the six questions shown on page one of this paper.

# The Use of Reward & Recognition Awards in Organizations

## Composite Responses

		 CASH	 TRAVEL	 MERCHANDISE	 PRE-PAID CARDS
<b>AWARD AUDIENCE</b>	Use In Channel Only	16.7%	33.3%	55.6%	66.7%
	Use with Employees Only	37.5%	27.3%	47.7%	67.0%
	Use With Both Channel & Employees	24.5%	57.1%	65.3%	61.2%
	Use Only This Award Type	6.0%	8.0%	10.0%	26.0%
<b>AUDIENCE LEVELS</b>	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%
<b>AUDIENCE FUNCTIONS</b>	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%
		No Response	9.4%	24.2%	19.5%
<b>BUDGET BY AWARD TYPE</b>	<\$10,000	24.5%	4.8%	31.5%	35.1%
	\$10,001 - \$50,000	30.2%	11.3%	14.1%	20.7%
	\$50,000 - \$100,000	5.7%	4.8%	8.8%	8.1%
	\$100,000 - \$250,000	7.5%	11.3%	7.7%	6.3%
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	\$1,000 - \$5,000	13.2%	46.8%	2.2%	2.2%
	>\$5,000	1.9%	19.4%	2.2%	2.2%
	Median Amount	\$250	\$2,500	\$100	\$50
	Median % (Of Income)	3.0%	4.5%	2.0%	2.0%
<b>BASIS FOR ESTIMATE OF OPTIMAL AWARD LEVEL</b>	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%
<b>PERCEIVED EFFECTIVENESS OF AWARD TYPES</b>	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%



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