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ESTABLISHING THE INTANGIBLE VALUE OF AWARDS PROGRAMS



Establishing the Intangible, Non-Financial Value of Awards Programs

WHITE PAPER

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Redefining Rewards in the 21st Century

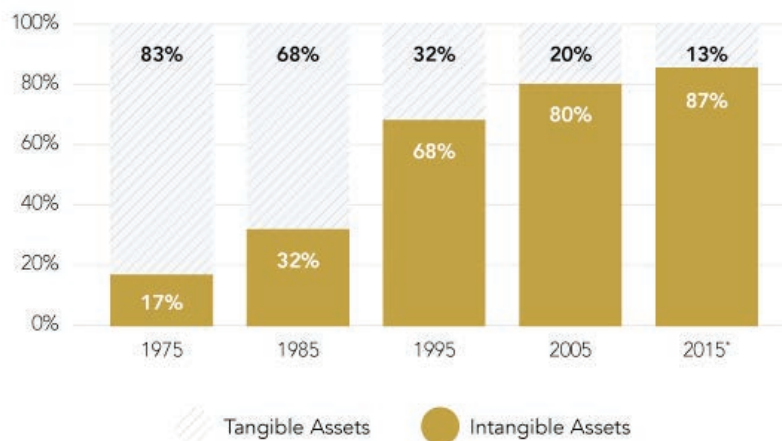
In most contemporary organizations, work involves problem-solving, analysis, leveraging insights, exercising creativity, and deep collaboration with colleagues and other stakeholders. The more interesting, creative, and purposeful the work is, the more the work itself can be the reward (Pink, 2006; Deci, Koestner, & Ryan, 2001). Consequently, many traditional compensation and rewards systems have struggled to keep pace, in part, because they were fundamentally designed during the Industrial Age (Ariely, 2016; IRF, 2017(b); Welbourne, 2015).

As a starting point, leaders must acknowledge that cash rewards, including compensation and bonuses, are table stakes. Wise and experienced leaders know that intangibles, such as workforce wellness, stability, trust, and good citizenship lead to the formation of resilient and accountable cultures. They are aware that although culture is difficult to precisely measure it can be a prime differentiator and key competitive advantage as it is impossible to imitate (Anand, 2016).

To that point, the market value of today’s corporate giants, including Apple and Amazon, is found more in their intangible assets, including ideas, brand, relationships, human capital, and managerial expertise, than it is in their hard assets, such as buildings, equipment, financial reserves, and land (Said, HassabElnaby, & Wier, 2003; Galloway, S., 2017). Indeed, more than 80 percent of the market value of publicly-traded firms is today attributed to intangible value (see Figure 1.)

Figure 1: “Intangible” Market Value

COMPONENTS of S&P 500 MARKET VALUE



SOURCE: OCEAN TOMO, LLC

The Intangible, Non-Financial Value of IRR Programs

Many of the cultural conditions driving an organization’s intangible value stem from incentives, rewards, and recognition. Many of the cultural conditions driving an organization’s intangible value stem from incentives, rewards, and recognition. The growing use of “total rewards” reflects greater organizational awareness that compensation, benefits, incentives, and rewards extend far beyond traditional definitions. Reward and recognition (IRR) professionals, whether involved in designing programs or providing travel, experiential rewards or tangible rewards, must expand their definition of

what they do and of what constitutes a reward. High performing organizations understand that it is a company’s broad mix of tangible and intangible rewards that create the conditions that set them apart from the competition (Bhattacharyya, 2011; Deloitte, 2014; Reilly & Schweih, 2016; Bryant, & Allen, 2013; Giancola, 2011; 2014; Greene, 2014).

IRR programs should aim at building what Dan Ariely refers to as a social relationship between the employee and their company (Ariely, 2016). Building relationships –and social connections leads to better citizenship behavior, creating a reciprocal desire to return the organization’s generosity with greater effort, loyalty, information-sharing, and advocacy (i.e., speaking well of the firm to others).

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New Research on Measuring the Intangible Value of IRR Programs

In Fall 2017, the IRF surveyed managers specializing in reward management and leading or advising a variety of cash and non-cash tangible and intangible reward programs. The study received 137 complete responses to specific questions about which types of programs they operate, and whether and how they measure the outcomes.

Figure 2: Incentives Utilized
Survey question: Do you (or any of your clients) offer incentives or reward programs beyond base compensation and benefits? Please check all that apply.)

| <i>Incentive Type</i> | <i>Percent of Companies Responding Yes</i> |
|--|--|
| Cash, tangible non-cash and intangible non-cash | 35.8% |
| Cash only | 25.5% |
| Tangible non-cash-Only | 13.1% |
| Tangible non-cash and intangible non-cash | 10.2% |
| Cash and tangible non-cash | 10.2% |
| Cash and intangible non-cash | 3.6% |
| Intangible non-cash Only | 1.5% |

Key findings

Respondents either agreed or strongly agreed that their rewards programs, in general, drive benefits across each of the intangible value categories we surveyed.

- Across incentive structures, approximately 1/3 of all managers reported they strongly believe their IRR initiatives have increased intangible benefits, including employee teamwork, learning, innovation, engagement in training, organizational culture, and engagement in organizational values.
- Non-cash incentive programs are 50% - 150% more likely to be linked to employee retention, satisfaction, and performance than cash only incentive structures.
- Respondents were resoundingly positive regarding the intangible value of award programs. Across all measures of intangible value (training, teamwork, learning, morale, culture, organizational values and innovation) the average score for award program effect was 5.5 on a 7-point scale (1 meaning “strongly disagree and 7, “strongly agree.)”
- Almost a full third (30.8%) of respondents strongly believed they have increased engagement in organizational values through their IRR programs.

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One survey respondent noted, “Our branch has far less turnover than the other branches [as a result of using tangible rewards]. We also are more organized, and as a result, we have a greater number of customers that go out of their way to visit our branch.”

Measuring Impact: Still Illusive

Consistent with the IRF, Incentive Federation and other survey research, only a minority of firms appear to measure the impact of the benefits of their cash or non-cash programs on various metrics.

Figure 3: Measures of Reward Program Benefits

| Measure of Impact | Percent of companies who measure impact of cash rewards | Percent of companies who measure impact of noncash rewards |
|------------------------------|--|---|
| Sales | 27.7% | 21.9% |
| Revenue | 24.8% | 18.2% |
| Employee Performance | 44.5% | 44.5% |
| Employee Retention | 21.9% | 29.2% |
| Employee Absenteeism | 13.9% | 16.8% |
| Employee Presenteeism | 13.9% | 19.0% |
| Employee Satisfaction | 20.4% | 29.2% |

Different Measurement for Different Program Combinations

Rates of tying a program's impact to results differed depending on the type of awards offered by the company:

- **Companies Offering Non-Cash Rewards Only:** Compared to companies offering cash-only incentive programs, companies offering non-cash-only incentive programs were more likely to report tying their programs to employee retention and employee satisfaction.
- **Both Cash and Non-Cash Programs:** Within companies that offered both cash and non-cash incentive programs, cash incentives programs were more likely to be linked to revenue and employee performance, while non-cash incentives programs were more likely to be linked to employee "presenteeism" (being at work or on the job, but not fully functioning) and employee satisfaction.
- **Cash Only Companies:** In addition, companies offering cash-only incentives programs were significantly less likely to report linking customer satisfaction to their financials (i.e., revenue and/or profitability) as compared to companies offering all three types of incentives (cash, tangible non-cash, and intangible).

Not surprisingly, organizations making more use of "softer" type rewards (i.e. tangible non-cash and intangible non-cash) are more attuned the softer benefits and values that these tools deliver.

Missed Opportunity

Neglecting to measure the intangible benefits of IRR programs misses an important aspect of motivation. By focusing solely on a countable number of work units produced as opposed to the intangible quality of that work, organizations may miss the true value of IRR programs. While organizations can't precisely measure everything that matters, that doesn't mean those things matters less, nor that you shouldn't measure what you can. (Mintzberg, 2017).

A survey respondent commented, *"I think rewards at my company have increased cross-functional engagement, increased focus among employees and our competitiveness. I believe the rewards and incentives offered create a more fun work environment."*

A survey respondent commented, "I think rewards at my company have increased cross-functional engagement, increased focus among employees and our competitiveness. I believe the rewards and incentives offered create a more fun work environment."

Look to intangible, non-financial value as opposed to thinking singularly in terms of hard, financial returns. By integrating a program's non-financial value, the resulting Value of Investment (VOI) model combines with the Return on Investment (ROI) model to complete the picture, providing the rigor needed to reduce management by "folklore" and anecdote (Price & Toye, 2017).

How to Measure Intangible Value: Current Measures of the Intangible Value of IRR Programs

Surveys suggest the most common way to measure the intangible value of investments in non-cash reward programs is to measure changes in employee surveys (e.g., engagement and satisfaction surveys) before, during, and after an IRR program (Peltier, Schultz, & Block, 2005). Employee engagement provides a useful proxy, particularly because changes in employee engagement and satisfaction have been shown to reliably predict future financial performance.

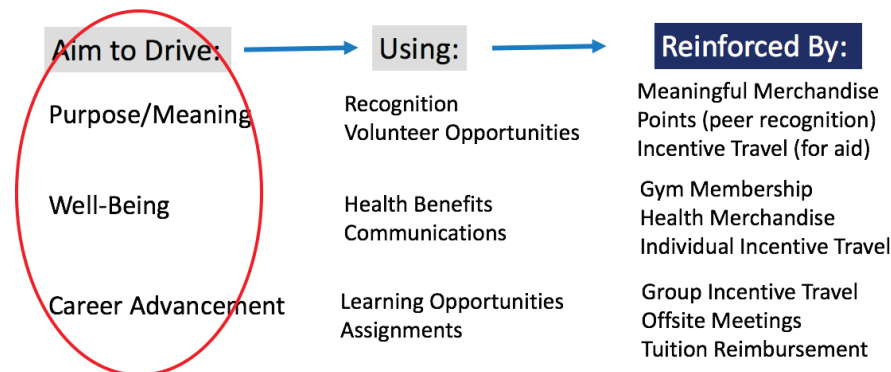
While measuring changes in engagement level before and after an IRR initiative provides a good means of assessing its intangible value, it is not the only metric at the organizations’ disposal. Some measure employee participation in non-core business activities, for example. Participation in the discretionary extras – attendance at company after-hours events, for example – may provide a good indication of the health and culture of the organization (Dubinsky & Skinner, 2002; Ferris, Brown, Berry & Lian, 2008; Thibault-Landry et al., 2018; Zigarmi, Nimon, Houson, Witt, & Diehl, 2009; IRF, 2010).

Organizations should determine the most important measures first; whether participation in company extra-curricular events, volunteer activities, voluntary overtime, sharing information, teamwork and the like, and then devise a weighted score that can assess change following the launch or completion of an incentive program (Devillers, 2017). This is a process the Cleveland Clinics use very successfully to align its engagement and rewards initiatives with specific desired behavioral change (Welbourne, 2015).

Summary & Key Insights: The New Role of Non-Cash Rewards

Recognition professionals using non-cash rewards are perfectly positioned to extend and reinforce the 21st century rewards of work. In doing so, they should not focus on the rewards solely, but also on the root motivators – purpose and meaning, autonomy, inclusion, learning, status, well-being and career advancement, for example. IRR professionals should use different types of intangible non-cash rewards (e.g., recognition, health benefits and learning opportunities) to reinforce the root, *intrinsic* motivators. Specific tangible, non-cash rewards (e.g., merchandise, gift cards, travel) should be used to support and reinforce them.

Figure 4: Key Motivators and the Rewards That Reinforce Them



Note, there are many more motivators, the above is just an example

IRR professionals should increase their focus on the motivational drivers (circled in red) and use rewards as tools in a reinforcing role rather than a lead role. For example, incentive travel, peer-to-peer points programs and well-selected merchandise rewards can reinforce recognition of good work and/or behaviors. Using a peer-to-peer points program to enhance what is first and foremost a recognition program (which satisfies the root motivator of purpose and meaning) is an excellent and proven example of using tangible rewards to fuel broader motivational goals.

Three central messages emerge from this paper:

1. If incentives are used as the sole motivator and dangled continuously like a carrot to coerce behavior or action, their effect is diminished. Professionals must consider the wider motivational environment.
2. When rewards are designed to reinforce recognition, they play a vital role in supporting the universal human motivators of purpose, autonomy, connection and learning.
3. The benefits of non-cash rewards programs include significant intangible value. Although difficult to measure, they may rival a program's the financial impact. Be sure to estimate the impact and value of the intangible benefits and report them.