Analyst Insight

Saying "Thank You": How Employee Recognition Drives Organizational Performance

Employee engagement is not an HR initiative; it is a business imperative. When employees are engaged, the overall organization performs better. Although senior corporate leaders recognize the connection between engagement and performance, engagement programs often fail to deliver results since they are not communicated or deployed across the enterprise. In order for organizations to successfully boost engagement, employee recognition needs to be part of the equation. In fact, 95% of organizations surveyed in Aberdeen's upcoming 2012 Employee Engagement report stated that employee recognition will improve overall employee engagement. Although showing appreciation for employee contributions may seem like a basic concept, many organizations are still immature in their approach to employee recognition. How can companies build a business case for employee recognition? What strategic actions are necessary to make an impact? This Analyst Insight, based on data collected by Aberdeen in June and July 2012, will help organizations understand the impact of recognition on organizational performance and the best practices necessary to design a results-driven recognition program.

The Business Imperative

In a competitive economy, organizations are challenged not only to identify top talent but also to retain existing team members. Employees who have felt stagnant in their work environments will begin to look for new opportunities as financial conditions and job outlooks improve. As a result, employee engagement and retention play key roles in retaining talent as well as driving organizational performance. Indeed, employees who feel engaged are more likely to invest in a company – by remaining on the job – that invests in them. According to Aberdeen's global Quarterly Business Review, which surveyed over 1300 business leaders, employee engagement is among the top five business challenges (see Table 1, which rates challenges on a scale of 1 to 5, with 5 being most challenging).

Table 1: Top Business Challenges for Business Leaders

Business Challenge	Large Organizations	Medium Organizations	Small Organizations
Economic conditions	3.21	3.13	3.19
Ability to execute strategy	3.11	3.10	2.88
Increased competition	3.09	2.98	3.00

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Company Size Definition

In Table 1, the following company size definitions were used:

√ **Large:** USD $1 Billion

√ **Medium:** USD $50 Million to $1 Billion

√ **Small:** USD $50 Million or less

Business Challenge	Large Organizations	Medium Organizations	Small Organizations
Retaining key employees	3.02	2.90	2.44
Rising operational costs (wages, materials, transportation, etc.)	2.98	2.89	2.60
Improving employee engagement	2.98	3.03	2.52
Market volatility	2.95	2.89	2.90
Shortage of key skills available in the market	2.77	2.80	2.50
The ability to identify key employees	2.65	2.51	2.13
Workforce productivity	2.57	2.75	2.41

Source: Aberdeen Group, June 2011

Fortunately, this challenge is not insurmountable. Organizations can improve engagement by prioritizing employee recognition and demonstrating appreciation for employee contributions. When an organization acknowledges an employee's positive behaviors, that individual will continue those behaviors and feel motivated to perform. If employees are not appreciated on a consistent basis, they will leave. Many companies are beginning to pay closer attention to recognition. Indeed, 58% of Best-in-Class organizations have implemented a formal program, compared to 41% of All Others (Industry Average and Laggard) (See Figure 1).

Recognition engages employees with tools such as events, celebrations, family outings, prizes, trips, e-cards, and awards. Peer-to-peer recognition is also gaining momentum as a tool for increasing engagement. Forty-three percent (43%) of organizations with formal recognition programs use peer-to-peer recognition tools such as notes on the office billboard and e-cards, compared to 27% of organizations which have no formal program. In Aberdeen's upcoming 2012 Employee Engagement research report, Zappos will be highlighted as a company that continuously recognizes employees. The organization even invests in a helium balloon maker at their headquarters, allowing employees to recognize peers by giving balloons.

Defining the Best-in-Class

Aberdeen's upcoming research study The Rules of Employee Engagement used three key performance criteria to distinguish the Best-in-Class (top 20% of aggregate performers) from the Industry Average (middle 50%) and Laggard (bottom 30%) organizations,

√ Percentage of employees rated themselves as "highly engaged"

√ Percentage of employees exceed performance expectations

√ 1st choice candidates accept offers

√ Employee engagement scores

√ Hiring manager satisfaction (year-over-year improvement)

Figure 1: Best-in-Class Organizations with a Formal Recognition Program
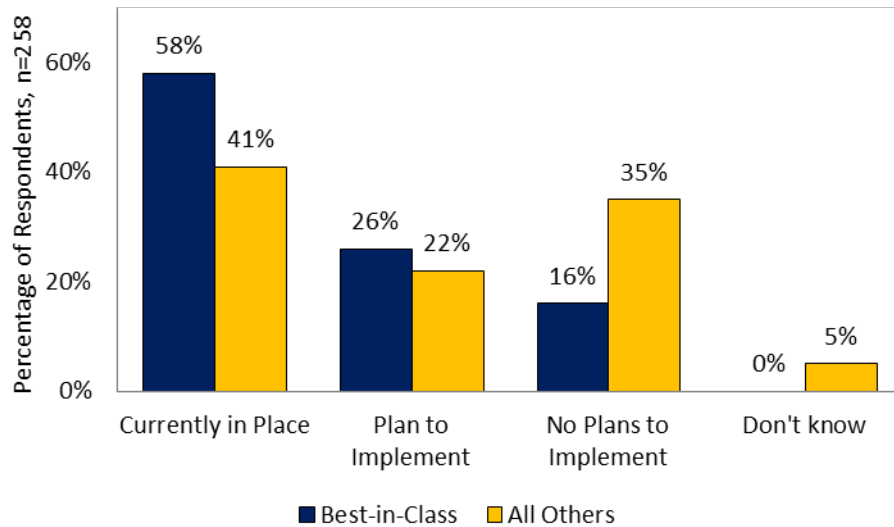
Source: Aberdeen Group, July 2011

Employee recognition is not complicated, yet many organizations still struggle to support such programs. The greatest barrier to employee recognition programs is the lack of senior executive buy-in, as indicated by 70% of organizations surveyed in Aberdeen's upcoming Employee Engagement report (see Figure 2). Recognition requires organizations to become vulnerable and in some cases, relinquish "control" over employees. The relationship between employer and employee is often viewed as a power struggle, and showing gratitude makes some employers feel as if they are losing the upper hand. Rather than view recognition as a weakness, organizations should realize it is a competitive advantage. Seventy-two percent (72%) of organizations with a formal recognition program are satisfied with employee engagement, compared to 54% of organizations that lack a formal recognition program—indicating that when organizations invest in strategic employee recognition, engagement levels improve.

Figure 2: Barriers for Formal Recognition
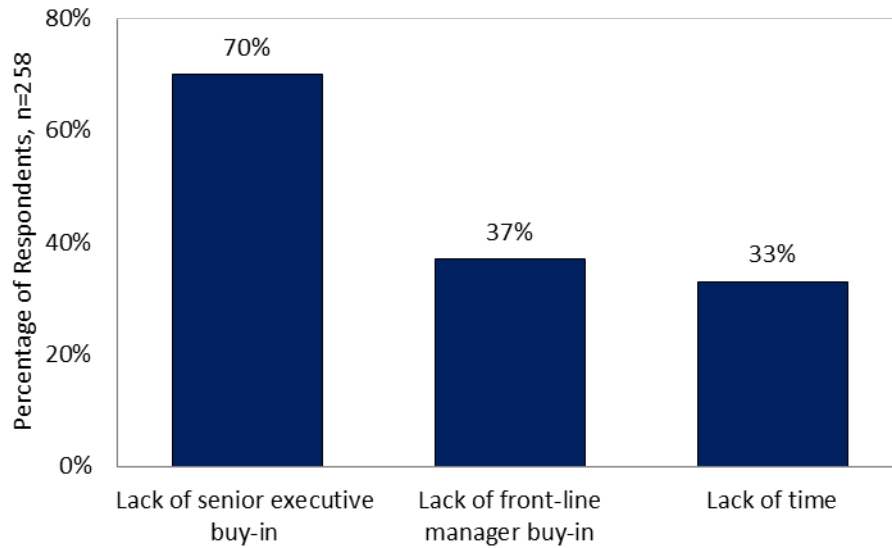
Source: Aberdeen Group, July 2011

Case Study — Molina Healthcare

Molina Healthcare, a FORTUNE 500 company, is a leader in providing quality health care for financially vulnerable individuals and families. Currently, Molina Healthcare arranges for the delivery of health care services or offers health information management solutions for nearly 4.3 million individuals and families who receive care through Medicare, Medicare and other government-funded programs in 15 states. As the organization recently grew to employ more than 5,300 employees, Molina Healthcare decided it needed to evolve its approach to employee retention and engagement, including re-designing the company's existing rewards and recognition programs. In the past, these programs were site-specific, "gift-card" programs that lacked consistency and failed to reinforce the company's values. In 2011, Molina invested in a strategic approach to employee recognition and began the journey of transforming the company culture to drive engagement and retention.

Designing the Program

In order to create a more robust recognition program, HR leaders at Molina Healthcare planned a twelve week project that would result in a program aligned with the company's overall organizational strategy and

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Case Study — Molina Healthcare

values. A steering committee was established to oversee the project and select the right technology provider. Molina Healthcare selected Achievers, one of the leading solution providers in the marketplace, to support the design of a custom-branded recognition portal. We enlisted the support of focus groups, senior leaders and various key stakeholders to help integrate feedback into the program's design.

Evaluating the Results

Designing and implementing a rewards and recognition program that motivates our employees and reflects the company's core values, continues to support the evolution of building a culture of recognition and engagement. Through ongoing recognition from peers, managers and leaders across the organization, Molina Healthcare is demonstrating to its employees that they are valued. In a recent program review, Molina Healthcare analyzed a sample of more than 100 recognition statements to determine if the recognitions were tied to the core values of the company. More than 85% of the recognitions were in fact linked to the company's core values. Adoption of the technology is also considered an indication of the success of Molina Healthcare's program and more than 95% of employees have logged in to the program site.

When creating a strategic approach to rewards and recognition, Molina Healthcare was able to achieve results by linking this program to the organization's core values, building the program with employee input, gaining support from senior leader, and delivering ongoing communications to support the program and encourage continued engagement.

Three Steps to Create a Culture of Recognition

While many organizations talk about recognition, few are deploying a consistent strategy across the entire enterprise. In fact, only 17% of organizations have standardized rewards and recognition programs. For recognition to be ingrained in the company culture, it needs to reach every individual, not just high-potentials or senior executives. Organizations that create a culture of recognition have a deeper understanding of what recognition is, who it needs to include, and how it needs to be communicated.

Rewards and Recognition

Rewards and recognition programs are two distinct approaches that are often used interchangeably. Organizations need to both recognize their differences and find a way to connect the dots between them. Aberdeen defines rewards and recognition as the following:

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- **Rewards:** providing employees with incentives for accomplishing performance goals

- **Recognition:** acknowledging an employees' contributions, talents and skills on a consistent basis

While rewards give employees milestones to achieve organizational goals, recognition is key to driving engagement for the long-term. Rewards can help employees reach goals, and then recognition encourages them along the way. Yet only 19% of organizations fully integrate reward and recognition programs (see Figure 3). To engage employees, organizations must balance the two. In fact, organizations that integrate rewards and recognition are nearly twice as satisfied with these programs as organizations that keep them separate (87% vs. 45% respectively). Sixty-eight (68%) of these organizations are also able to link engagement to profitability, while 49% of organizations do not connect rewards and recognition.

**Figure 3: Integration of Rewards and Recognition**
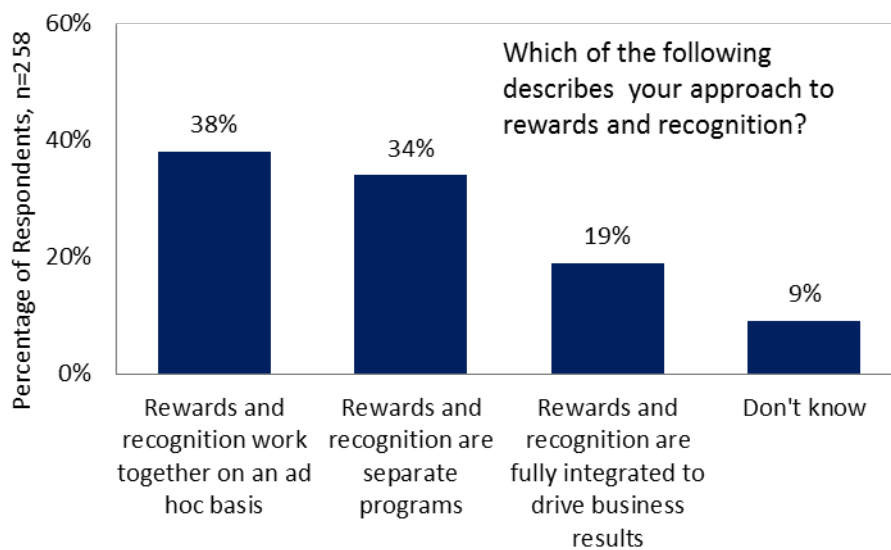
Source: Aberdeen Group, July 2012

Social Employee Recognition

Communication is key to a successful employee recognition program. Communication between employers and employees must be authentic to build trust. Some organizations are even positioning themselves as a "community" to better achieve these goals. Although 40% of organizations understand that stronger communication and collaboration are the heart of employee recognition, identifying the right channel for employee appreciation has historically presented some challenges.

Social media is proving to be a powerful tool for communicating
recognition. Sites such as Facebook, Twitter, Pinterest and LinkedIn offer
organizations a better way to connect, collaborate and recognize employees
in real-time. Some organizations tweet praise for an employee using a
company hashtag, while others post e-cards and postcards on employees'
Facebook pages. Internal social networks, on the other hand, offer a
platform to recognize the contributions and behaviors of an employee to
their co-workers. Forty-two percent of Best-in-Class organizations use
external social networking sites, compared to 24% of All Others. Thirty-five
percent of Best-in-Class organizations use internal networking sites
compared to 22% of All Others (see Figure 4).

Figure 4: The Use of Social Media for Engagement
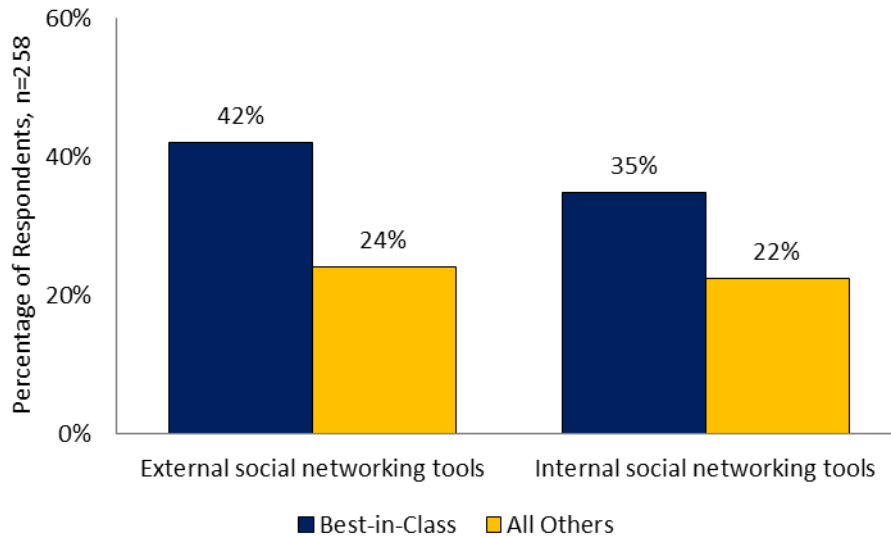
Source: Aberdeen Group, July 2012

Total Talent

Employee recognition programs should encompass not only full-time
employees but also contingent workers. The contingent workforce, defined
as temporary or part-time workers, is growing as employers and job
seekers recognize the benefits of greater diversity and lower cost.
According to Aberdeen's 2011 Contingent Labor Management report,
22.5% of the average organization's workforce is considered contingent, and
25% is expected to be contingent in 2012.

Despite the growth and opportunity of a flexible workforce, only 16% of
organizations include contingent labor in recognition programs. If contingent
workers are not appreciated, they may not produce as quickly, remain with
organizations for the duration of critical projects, or adapt to rapid changes
in the business.

Investing in Technology

Technology plays a pivotal role in helping organizations consistently recognize employee contributions. Currently, most organizations are leveraging existing talent management technology providers, such as performance management, learning management, and employee self-service providers, to improve engagement (see Figure 5). As the employee recognition market matures, organizations need to consider solutions that specialize in linking recognition to organizational performance by offering capabilities like e-cards and social recognition. Currently, only 25% of organizations are leveraging online tools that track rewards and recognition progress.

Figure 5: Systems Used for Employee Engagement
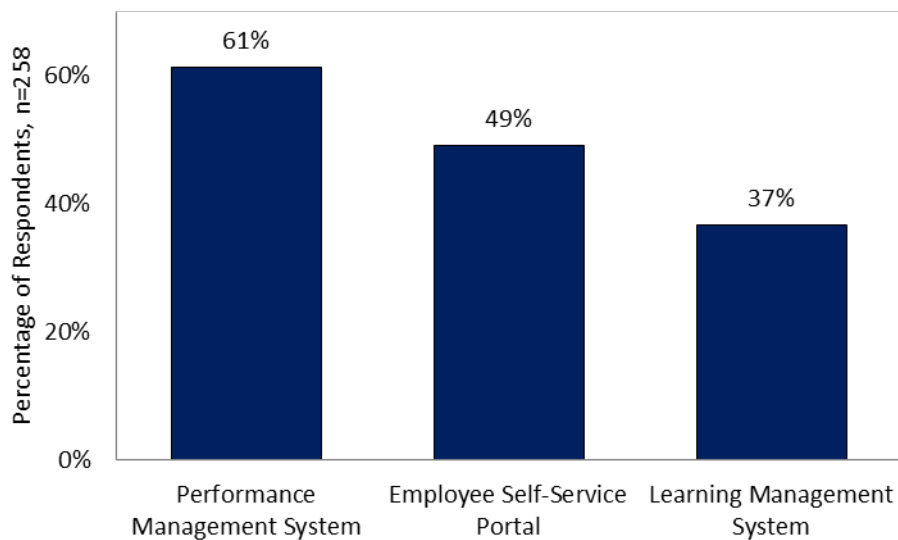
Source: Aberdeen Group, July 2012

When selecting the right provider, organizations are considering not only cost (45%) but also customization (35%) as the top criteria for selection. Since recognition is closely aligned with culture, these solutions need to be customizable to reflect the company values and overall culture. Some organizations may wish to showcase events while others prefer personalized postcards. Many organizations are looking to drive behaviors they would like to see in the organization. The bottom line is that recognition is personal and most effective when it reflects the individual culture of the organization.

Key Takeaways

Employee recognition is critical to driving engagement and improving organizational performance. To achieve competitive advantage, organizations are strengthening recognition by creating a consistent process throughout the enterprise and aligning that process to business objectives.

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To understand strategic employer recognition today, organizations should
take the following steps:

- **Differentiate but Integrate Rewards and Recognition**: Only
  19% of organizations fully integrate reward and recognition
  programs. In order to engage employees, organizations must find a
  balance and integration between the two. In fact, organizations that
  integration rewards and recognition are twice as satisfied with these
  programs than organizations that keep them separate.

- **Consider Contingent Workforce**: While the flexible workforce
  is growing, most employee recognition efforts do not include
  contingent labor. When contingent workers are excluded from
  recognition efforts, they may not produce as quickly, remain with
  your organizations for the duration of critical projects, or adapt to
  rapid changes in the business.

- **Invest in Technology**: Organizations should not only leverage
  existing technology for boosting engagement but also invest in
  recognition providers that offer peer-to-peer recognition and
  manager-to-employee recognition capabilities, to ensure that
  employees feel appreciated and positive behaviors are reinforced.

For more information on this or other research topics, please visit
www.aberdeen.com.

Related Research	
The Talent Acquisition Lifecycle: From Sourcing to Onboarding; September 2011	*Talent Acquisition Strategies 2010: Candidate Experience and Relationship Management Come of Age*; August 2010
Assessments 2011: Selecting and Developing for the Future; May 2011	*Succession Management: Sustainable Leadership for the Future*; July 2010
The 2011 HR Executives Agenda: Automation, Innovation and Growth; December 2010	*Competency Management: The Foundation for Talent Success*; December 2009
Author: Madeline Laurano, Research Director, Talent Acquisition Solutions (madeline.laurano@aberdeen.com)	