

The 1% Solution

How to Effectively Manage Your Rewards and Recognition Budget

The Executive Recognition is a Force Multiplier - What 1% Can Do That 99% Can't

Small But Critical

Today's organizations are looking for the magic bullet that will transition them from a good company to a great company. In the past, many companies looked to salary, then benefits, and then variable pay through performance bonuses and potentially stock options to engage and drive performance. In some cases, these efforts paid dividends.

We often spend our time, energy and resources on things that we believe to be important. We focus on the big things because they loom large in our vision and our minds. We spend time working on that which is urgent yet unimportant because we attach more value to the due date than the outcome. We rarely consider the small things that truly make a difference because they are small.

But small does not mean unimportant.

A very small thing can be the only thing that is important. In fact, spending as little as 1% of your employee payroll on specific, timely and meaningful recognition is as important as the other 99% of your employee dollars.

That 1% is what makes the difference.

Time to Consider Less Rather Than More

Companies have been, and continue to be, under tremendous pressure to deliver more value to their customers – and do it with less cost and better quality and service. We've moved past the industrial mindset and industrial economy and are fully immersed in the "knowledge and service-based economy" where people are the real competitive advantage to a company.

So how do you engage this resource more effectively? With the economic pressures on most companies today, it isn't a simple matter of increasing pay. Not only is it tough to do without the cash – it's also a bad idea overall.

Shifting money traditionally spent in “raises” and spending less overall on rewards and recognition – can and will increase how much discretionary effort your employees put into your company.

Why?

There are four things that are contributing to your ability to decrease costs and increase results when it comes to engaging your employees:

1. A better understanding of what “motivates” people
2. A much more diverse audience
3. The “type” of employee
4. Technology

It's All About Impact

The economy has forced many companies to forego the traditional “3%” merit increase. Historically, that 3% was an entitlement. Today – it would be a bonus. But, as companies scale back raises, they can’t ignore the need to reward and recognize top performers.

And that’s where a recognition strategy focused on culture and performance is impactful.

For most workers - a 1% increase in compensation is an insult.

However, receiving specific, timely, and genuine recognition tied to meaningful rewards is what truly influences behavior and what employees value.

Research is pretty clear on this one point: employees want more recognition. According to Dr. Bob Nelson, best-selling author of “1001 Ways to Reward Employees”, 85% of employees say they feel over worked and underappreciated where they work today. While employees value recognition and validation for a job well done, according to Harris Interactive, less than half of employees feel they receive adequate nonmonetary rewards and recognition for their contributions at work.

“The best use of money is to take the issue of money off the table ...Effective organizations compensate people in amounts and in ways that allow individuals to mostly forget about compensation and instead focus on the work itself.”¹

If you consider the impact on the “average” total compensation package for an employee - 1% added to their paycheck or to some other benefit category would not only seem small – it would get lost in the shuffle of paper and/or their direct deposit statement.

Average Employee Compensation:

- Total: \$29.39 per hour worked.
- Wages and salaries: \$20.49 per hour (69.7 percent).
- All benefits: \$8.90 per hour (30.3 percent).

SOURCE: U.S. DEPARTMENT OF LABOR, MARCH 2009 DATA.

Consider:

- A 1% increase in pay = 20 Cents
- A 1% increase in other benefits = 9 Cents
- Recognition and validation from your manager = Priceless

According to a study conducted by the Jackson Organization, 79% of employees who quit their jobs cited a lack of recognition as a key reason for leaving. Additionally, 65% received no recognition in the previous year.

Compensation is the 99% Baseline – We’re all Equal...

Dan Pink, in his book *Drive – The Surprising Truth About What Motivates Us*, outlined convincing evidence that cash incentives, “if – then” rewards, actually do more harm than good in the long run. These incentives reduce creativity, increase performance problems and ultimately, short-circuit performance for most knowledge workers. However, recognition, or “now – that” rewards, are proven to be effective.

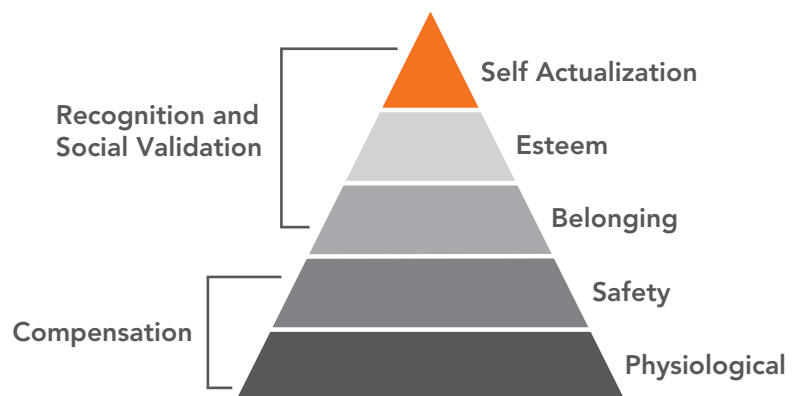
A good compensation structure is critical. However, what drives overall performance are the things that we focus on after money is off the table.

Maslow at Work

For most of us the salary and benefits we currently receive are pretty adequate to allow us to have a home, apartment, car, food and clothing. Additional pay, while welcome, isn't where we find additional motivation. For all of us, once we adjust to the income we have we start to look for those things that satisfy our higher motivations. Maslow identified them as belonging, self-esteem and self-actualization.

Adding another 3% in pay has little impact those lower levels on our motivation hierarchy since they are already satisfied. However, adding 1% at the higher levels where recognition and validation lives has a huge impact on our engagement with a company. Especially when the research shows, most employees do not feel they are receiving adequate recognition.

It is no wonder that Maslow used a pyramid to explain his theory. It is the perfect structure to illustrate where your money – not necessarily your effort, should go once compensation has satisfied the lowest levels of motivation.



As the pyramid illustrates – you will spend more of your money near the bottom of the pyramid (ie: salary, benefits) and less as you move up the pyramid. Focusing on the needs of employees after compensation has been addressed is most efficient.

Less money with greater impact on motivation.

In 1992, WorldatWork, then known as the American Compensation Association (ACA), in conjunction with the White House Conference on Productivity conducted an extensive research study with more

than 8 million employees in 1,600 organizations. The results showed that overall cash and non-cash actually had the same effect on productivity. However, \$3 in cash was required to affect the same result as \$1 in non-cash rewards.

Said differently – if you could get the same impact on productivity with a 1% increase why spend 3%?

New Generation Thinking – Performance VS Presence

2011 is a pivotal year in workforce demographics. This is the year that Millennials and Gen X now make up 51% of the workforce. It is estimated that Millennials alone will be over half the workforce in 2014¹. While many see that as an issue of updating the technology – catering to the Millennials need to constantly be in contact via phone and internet – it is really more about their need for feedback and connection.

Millennials are the first generation raised with constant feedback on performance. From “everyone gets a trophy” soccer teams to helicopter parenting – Millennials have been conditioned to receive feedback, input and praise on a regular and frequent basis. However, the workforce they are entering was built by Boomers and Xers who have been working under a recognition culture based mostly on presence – not performance.

Think of Service Anniversary Programs, the sole criteria is being “there”. Anyone and everyone who has been “there” for five years earns/receives the same recognition – regardless of performance.

Millennials need feedback. Millennials need recognition and Millennials aren’t satisfied with just being “there”. Performance is key and creating a system whereby everyone gets the same raise and the same reward for simply being “there” doesn’t ignite their engagement fire.

Technology

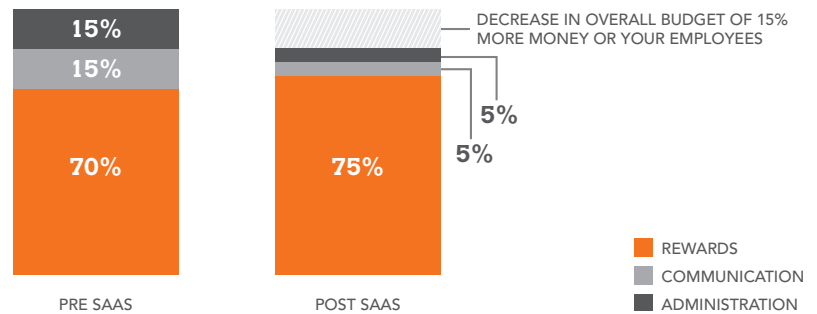
As we all realize, technology is now part of our lives. From Facebook, to LinkedIn, Twitter and all the apps on our iPhones – advances in technology have changed our personal lives and how we connect with friends and family. The business world isn't immune from these advances either. New software technologies and almost constant internet connections have changed the way we use, buy and interact with software.

Software as a Service (SaaS) has become a standard business practice. Initially, many companies saw risk in relying on a third party to host and manage the software they used daily. However, it has proven out that these services are not only reliable, but more cost effective and ultimately, more effective.

As the third party providers enhance their software, learning and interacting with each new application – all the users of that software benefit. No longer do companies have to pay exorbitant fees for customization and changes. A single license fee provides state of the art solution support. You are always using the best solution set – always.

Incentive and reward programs have traditionally been managed and driven by software created and managed for each individual client. This was expensive. Some providers use "reusable" segments of code – but still have to assemble and connect that code on a custom basis. Their value proposition is that you get the custom application you need for your company. The truth is however, SaaS has come so far in the last few years – customization is now inherent in the system. From look and feel to features and applications – the list of choices and customizations is no longer limiting. SaaS in many instances provides much greater flexibility, speed to market and much lower costs.

Allocation of Budget Pre SaaS and Post SaaS



Traditionally, incentives following under the rule of thumb that 70% your budget should be used for rewards – and the remaining 30% split between administration and communications. How does the rule hold up when the administration and communication of many program functions is provided as SaaS? Not well.

In fact, you can experience a huge reduction in your overall program budget with a SaaS solution while keeping your total reward budget exactly the same and possibly increasing it!

As the above chart indicates – you can increase your current level of rewards, put more money towards your employees, reduce your overall budget and show higher ROI. It would seem that the traditional “rules of thumb” associated with recognition and reward program design no longer apply.

Evidence That 1% is All You Need

Leveraging new SaaS platforms, focusing on more effective non-cash rewards and being able to connect quickly, easily and frequently with your employee base will drive employee engagement. The true test of any solution is its results and Achievers over the past few years has seen measurable impact on our clients employee engagement, satisfaction and program participant metrics.

And we’ve done it by spending less – not more.

Johnson's Inc. Case Study

Company

- 25 years old
- Delivers home and auto insurance
- One of the leading and fastest growing providers of insurance products and benefits
- Award-winning customer service
- Now part of RSA Group- world's leading insurance company in 130 countries
- Values: Getting the Job Done, Brilliant Service, Positive People, Doing the Right Thing and Bright Ideas

Goals

- Cultivate a culture of recognition
- Encourage leader manager recognition and empower employees to reward their peers
- Reduce HR and IT administration with sacrificing success of program
- Award-winning customer service to over 400 client-associations
- Wanted to ensure that all employees, no matter their position at the company, were rewarded fairly for the work that they do

Outcomes

- Buy-in from all employee levels- 90% of employees activated in the first seven days
- 1,100 recognition within first week of program launch
- All modules are enabled in English and French
- Employees of all levels earn points and are recognized for what they do
- RSA (Johnson's sister company) is launching because of the success from Johnson
- Cross departmental and regional recognitions

Large Professional Services Provider

Company

- One of the world's leading professional services firms
- Over 150 years of experience

Goals

- Create a culture of recognition to influence behavior
- Get partner buy-in and involve them in the program
- Increase employee engagement

Outcomes

- Buy-in from the key leaders
- Positive feedback from employees regarding budget allocation empowered employees and trusted them to distribute points tied to recognition as they saw fit. In the past, everything was buried under layers of approvals and processes
- Easy to use platform designed and built for anyone to register and recognize immediately
- Employee excitement due to communication with launch videos, email communications and packages to each employee

Our solution allows your company to reduce your expense on non-cash rewards and increase their effectiveness.

As you review your compensation strategy for 2011 and beyond keep in mind the rules that drove decisions on where to spend money no longer apply.

- It's now about non-cash vs cash – it's more effective and easier to manage
- It's now about efficiently running programs with little setup costs and development time
- It's now about connecting the new generation of workers with what really drives their performance.

Those three elements are the final degree of heat needed to transition your company from where you are – to where you want to be.

Adding more money to a standard compensation and benefits package is like adding more water to a pot of 99 degree water – it doesn't ignite a transition from liquid to gas – it just increases the volume of water.

Solution

In physics, phase transition is when matter changes from one state to another. From a solid to a liquid. From a liquid to a gas. In each case, phase transitions are "discontinuous." What that big word means is that there is a very specific point at which matter will jump from one state to the other. There is no grey area. It is or it isn't in one state or another.

Water will remain water until it hits 0 degrees Centigrade. At 1 degree above 0, it is water. At 0 it is ice. There is no middle ground. Water isn't water and ice at the same time at any degree. It either is – or it isn't.

And that last degree is what makes water change – transition - to its new phase. It is the same when going from water to steam. 99 degrees it is water. 100 degrees it is steam. No middle ground.

Your organization has similar points of "transition." Below which you are one company, above it – and you are another company completely.

As the economy continues to improve, companies are looking to make the transition from surviving to thriving. And we believe that in order to drive that transition in your company you should consider spending less on your employees, yet still increase employee commitment and focus on your business.

While 99% of your employee expense may be on salary and benefits – that 99% simply allows you to stay where you are. Just like that last degree of heat that changes water to steam – that last 1% of your employee expense can create the transition you are looking for within your company.

We think it is time to focus on the little things that make a huge impact.