

6 STEPS FOR DETERMINING THE ROI OF AN EMPLOYEE RECOGNITION PROGRAM

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Can you measure ROI on employee recognition initiatives?

YES you CAN, but you have to define what is important to measure.

Follow this six-step process to determine the ROI of an employee recognition program

It's a question that always comes up when companies are considering starting an employee recognition program or questioning if they should continue implementing a program:

"What's our return on investment?"

It's a valid and important question. Depending on the size of your organization, you can be spending an average of \$125 to \$175 per employee per year on award costs and another \$50 to \$75 per employee per year on administrative costs. For an organization with 10,000 employees, that's an investment of up to \$2,500,000. Of course, your CEO and CFO will want to know what they are getting for that kind of money.

If you can't answer that question, your employee recognition budget could be the first thing on the chopping block when budgeting time comes around.

So how do you measure return-on-investment for a rather subjective initiative focused on recognition?

Here's the six-step process to follow:

1 Start with defining your recognition objectives.

Recognition can be viewed simply as a "warm fuzzy" that is impossible to measure if you don't first assign specific objectives for the program. In order to create a meaningful ROI, first determine what the real business need is for instituting a program. Common needs include:

- Improving morale
- Increasing productivity
- Improving absenteeism
- Reducing rework
- Reducing costs
- Reducing customer service complaints
- Reducing turn-over



Focus on only one or two objectives as the way to measure ROI.

One of the biggest mistakes you can make is to try and set too many objectives and not focus on what really matters. What are the one or two most compelling needs that you feel recognition can impact? What is leadership most concerned about? Your program may also positively impact other objectives, but if you focus on one or two, you'll find it easier to create a defensible ROI.

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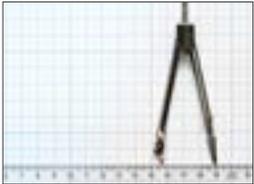
When choosing your key objectives keep in mind that some metrics are easier to measure and to demonstrate ROI than others. If a key objective is to improve employee morale, for example, you should strongly consider using a credible control group to help demonstrate ROI (see step five).

As you evaluate what key objectives to select as the basis for your ROI, factor in how the financial benefit of improving a specific metric can be calculated. For example, the benefit of improving

Include your finance team in the discussion to give you insight on what metrics are currently being measured and how that data is used.

absenteeism could be calculated by offsetting any additional overtime wages incurred. Or, the value of reducing turnover may be calculated by the cost saved in recruiting costs and new employee training costs.

Using existing data that the company already collects will have more credibility than new data you need to create. Plus, it will be easier and faster for you to access existing data versus creating a new data set.



2 Identify the key metrics that already exist in your organization that align with your objectives.

How do you currently measure morale? Employee surveys perhaps. What about productivity or rework costs? Use measurements you already have in place. First, this gives you a baseline. Second, you don't have to come up with a new measurement system that can be costly to implement and delay the start of your program.

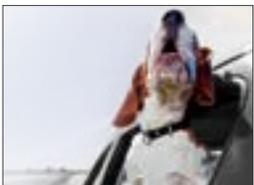
As previously stated, using generally accepted, credible and existing corporate metrics for your selected business objective will always provide more validity to your data. Senior leadership will understand your ROI logic when you can tie it to measures they have come to rely upon and trust. New metrics can invite skeptics to challenge your information – clearly a position you don't want to find yourself in.



3 Consider establishing a control group.

Analysts will tell you that without having a control group – those not participating in your program – much of your data isn't reliable. The ability to see change among those who use recognition and those who can't (as opposed to those who won't) is important. Having a credible control is crucial to demonstrating a program's ROI.

The control group can be a selected segment of employees who will not have an option to participate. Or, the control group can be a baseline period to use for comparison. Either way, be sure to ask leadership and your analytics teams for help in selecting and developing the control group. This adds credibility to your final ROI calculations and results.



4 Clearly define and then communicate what specific behaviors you want employees to recognize each other for that can impact your one or two key objectives and metrics.

Too often recognition programs offer vague advice on what to recognize. It's common to see things like "going above and beyond" or "demonstrating our values" or "leading the way." Employees need more specific direction. If you can't specify actions for the entire company due to the variety of work being done, then charge your management teams with defining those things that can impact change within their departments.



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Localize the program as finitely as you need to so you can measure its impact. If turnover is your number one objective, ask each department to define why they believe turnover is too high in their group. Of course you'll get responses about poor pay and bad benefits, but help lead the discussion beyond those reasons. Ask, "if we can't give everyone a raise and free healthcare, what else can we do?" Those are the things you can recognize.



5 Set realistic expectations when defining a measurement schedule.

Recognition programs can take a long time to get going in a company. Some departments will get on board right away and in others you'll be herding cats. It's natural to want to have "great numbers" to share with management on a frequent basis. You should reasonably expect not to see any significant change for at least six months against your key metrics and it could be as long as 36 months.

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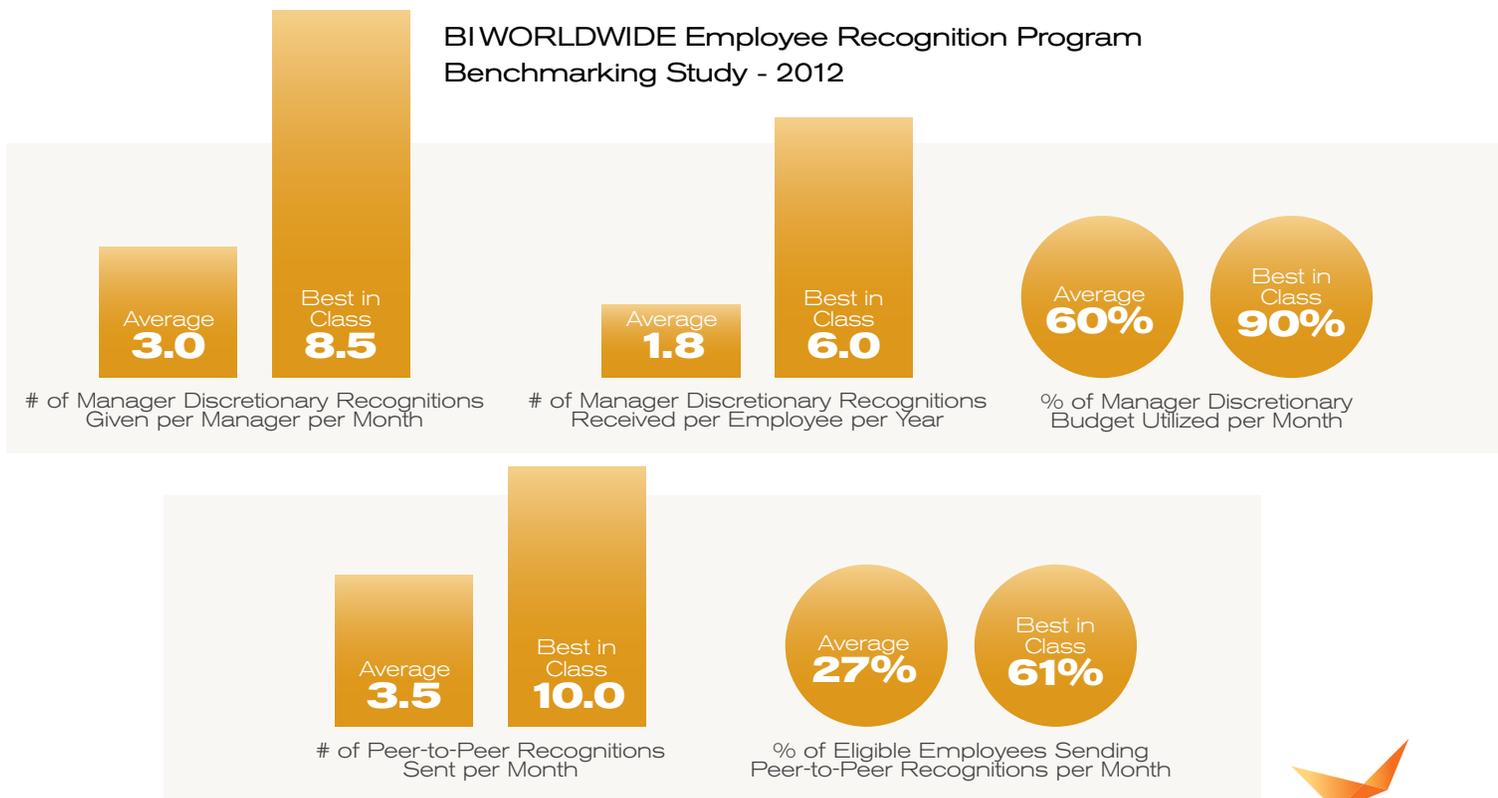
In the early stages of the program, focus your measurement on tactical results such as:

- The percentage of managers who have participated in program training,
- The number of recognitions employees have sent their co-workers,
- The percentage of employees who have recognized a co-worker,
- The number of recognitions, per manager, that have been given,
- And the percentage of managers using their discretionary awards budget.

These metrics can help you input data to pass on to leadership to show that you are making progress.

To help you as you are measuring these tactical results, here are benchmarks from BI WORLDWIDE's annual employee recognition benchmarking study. Use these metrics to see how your program measures up. If your results are lower than average, you should consider increasing communications, promotions or training to get your program up to par.

BIWORLDWIDE Employee Recognition Program Benchmarking Study - 2012



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Equally as important, measuring the tactical components helps you identify if there are areas of the program that may require attention. You may discover that certain departments aren't participating at all while others are very active. Use this data to see what you can learn from the active groups to develop communications and training initiatives to help get non- or low-participating groups more engaged.



6 Be transparent and conservative when calculating your program costs.

In addition to awards costs and the administrative and communication fees you pay your recognition supplier, you likely have other labor and materials costs that you are absorbing within your budget. Your staff is training managers, running kick-off meetings, fielding questions, making presentations, traveling to other sites and so on. While including these costs will lower your ROI, it will increase your credibility when management understands that you are being completely transparent.

ROI = (metric during measurement period – base line) ÷ cost of program

Be conservative when reporting your ROI to senior leadership. Consider reducing your ROI by a percentage factor such as 30, 40 or 50 percent. Remember, other things going on in the company likely had some impact on the metric too. For example, if you can demonstrate a positive ROI by only claiming 50% of it is directly related to your program, you are sure to have more credibility with leadership.

Quantifying the impact of recognition is possible

By following this six-step process you can quantify the impact of recognition with an ROI analysis.

BI WORLDWIDE is a global leader in employee recognition programs. We use the latest technology and behavioral economist theory to create programs that help organizations meet their business goals.

Our leading recognition solution, *G5*, is the most advanced social recognition system ever. G5 has been specifically designed to deliver behavior change to achieve our customers' engagement objectives. This highly-advanced system incorporates forward-thinking technology with industry best practices to make it:

- **Accessible** to any user, anywhere, using any device
- **App-driven** to support a wide range of employee engagement initiatives
- **Socially-adaptable** to integrate program messages into social networks including Facebook, Twitter and LinkedIn®
- **Playful** offering a gamification app utilizing popular badging systems
- **Personally-focused** using our patent-pending Recognition PURL™ (personalized URL) app to celebrate employee achievements in a social networking environment, and our proprietary U Draw It™ app to create personalized eCards
- **Globally responsive** with BIW offices in Australia, Canada, China, India, Latin America, United Kingdom and the United States
- **Data-driven** focusing on benchmarking and providing actionable data to help improve program results

For more information on **BI WORLDWIDE** and **G5**, visit:
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