

CASH
RECOGNITION

VS.



NON-CASH
RECOGNITION

THIS WHITE PAPER
WILL LEAVE YOU
FEELING ANYTHING
BUT BLUE.

BAUDVILLE[®]
THE PLACE FOR DAILY RECOGNITION

CASHING IN ON NON-CASH RECOGNITION

Employee engagement and performance have never been more critical to the overall health and success of an organization. As many companies struggle in a slowed economy, employees' hard work and dedication can make the difference between stopping or accelerating business.

The financial relationship between employee engagement and performance is startling. According to the Gallup Organization, disengaged employees cost the U.S. nearly \$300 billion annually. On the other hand, companies with higher employee engagement yield higher sales, higher productivity and higher retention.

Employee recognition is a valuable management strategy that can increase employee engagement and performance. Recognition serves as a communication tool that allows companies to reinforce and reward behaviors that are reflective of the organization's core values and objectives. While recognition drives performance and engagement, cash rewards often fall short of achieving results.

Many organizations mistakenly attempt to improve employee engagement and performance with cash rewards. When employees were asked by Watson Wyatt to identify "very significant" motivators of performance, 66% of respondents answered "appreciation" as opposed to only 15% who reported "financial reward." And 32% of employees responding to an American Express Incentive Services survey reported that cash rewards do not improve their performance.

As a reward, cash often falls flat. Employees given cash rewards quickly forget how they spend the cash, and most often the cash goes toward an unmemorable expense: bills. In industry surveys, 50% of cash reward recipients said they either used cash to pay bills or could not remember how it was used.

In addition to being easily forgotten, relying on cash rewards to engage employees and drive performance quickly becomes a management challenge. Over time, cash rewards become viewed by employees as an entitlement, and managers run the risk of creating high employee expectations that cannot be satisfied. Soon, the denial of a merit raise or a merely incremental raise, becomes a form of punishment instead of a performance-based decision.

WorldatWork and Recognition Professionals International found that motivating high performance is a common goal of recognition programs. However, the use of cash to improve employee performance has been shown through research to be a futile effort. Rather, recognition accompanied by a small, tangible gift is more effective at driving employee engagement and performance than rewarding with cash.

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It's possible you've already gone down this road at your organization and tried to convince upper management that shelling out bonuses once a year does not provide the return on investment they may expect. Perhaps you've asked employees how they wanted to be rewarded, and they overwhelmingly responded, much to your dismay, "Just give us the cash."

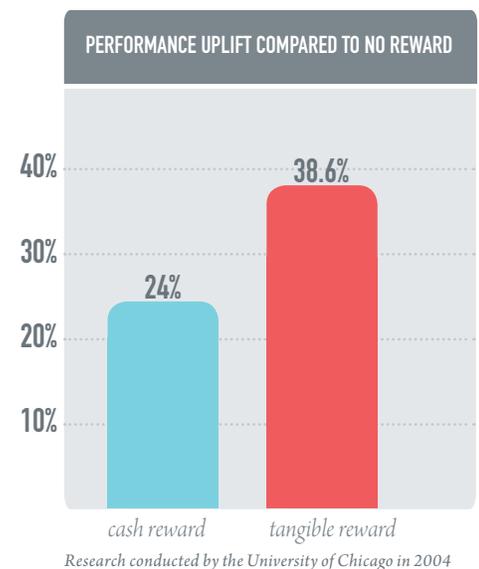
When asked about reward and incentive preferences, employees will respond in favor of the cash over a tchotchke any day. This trend is especially true during difficult economic times. An increasing number of families are struggling to cover their bills as is evident in the record number of foreclosure filings, which surpassed 3 million in 2008. With so many people struggling financially, one may assume that cash rewards are more impactful on work performance than ever before.

Shockingly, the answer is quite the contrary. When investigating employee reward preferences, research has taught us not to ask employees what they want as much as what rewards they will work hardest for. The most valued rewards will lead to peak performance because they make the employees feel appreciated and respected for their individual contributions.

Research conducted by the University of Chicago in 2004 concluded that "What employees say they want and what they actually work hardest to receive do not always match up." The study presented different participant groups with an incentive for performing a specific task; some groups were offered cash for their performance and others tangible rewards. Researchers found that participants who were given a tangible reward had a 14% higher performance outcome over those who were given a cash reward and 38.6% higher than those without a reward.

A similar study was conducted in 2008 by behavioral economics professor Dan Ariely of Duke University. In a series of studies, Ariely and colleagues offered participants varying bonus amounts for performing a set of tasks. The results showed that participants who were offered a large bonus had the worst performance compared to participants offered smaller bonuses. The study concluded that while money has the ability to motivate people, it also adds stress. At some point, the stress overwhelms the motivating influence and negatively affects the individual's performance.

Ariely and colleagues concluded cash to be an effective motivator for individual performance "as long as the task involved only mechanical skill, [then] bonuses worked as would be expected: the higher the pay, the better the performance." In today's knowledge-based economy, however, cash bonuses won't buy you a lot of brain power.



Employees may say they want to receive cash rewards, but they will work harder for tangible rewards. What makes a gift a more effective driver of performance? Unlike cash, a tangible reward or gift reinforces company values and employee behaviors. Recognition gifts serve as a lasting reminder of the recognition moment or achievement. For instance, an employee who keeps a trophy on her desk from last year's award ceremony is reminded every day of the recognition moment and will strive to replicate the behaviors and actions that won the award. The tangible item serves as both reminder and motivator for top performance.

In a study conducted by the Forum for People Performance Management and Measurement, managers who use reward and recognition services rated non-cash programs superior to cash for motivating staff to achieve business objectives. The study showed non-cash recognition to be considerably more effective for positively impacting internal operations and improving customer relations. The same research organization has also identified a clear link between employee engagement and customer satisfaction, and customer satisfaction and profitability.

In their investigation of non-cash recognition, the Forum for People Performance Management and Measurement found that non-cash recognition has a more effective impact on an organization's culture and employee behaviors. Their findings stated that tangible rewards are a better strategy for improving morale, creating positive internal buzz and improving teamwork. Cash rewards fail to cultivate the same culture because it's not socially acceptable for employees to discuss the size of a bonus check. Rather, recognition gifts are a source for conversation, congratulations and even some friendly boasting around the office.

Non-cash recognition is also a more cost effective approach to improving engagement and morale. Recognition gifts do not have to be expensive brand name gifts or electronics to make an impact. Rather, researchers at the Stanford Graduate School of Business discovered that, when it comes to gifts, it's the thought, not the price tag, that counts. "The recognition that's conveyed through smaller gestures, perhaps done more frequently is just as meaningful, if not more so, than large, splashy gifts," the report stated. Simply accompanying recognition moments with a memento, such as a handwritten note, certificate or desktop gift, reminds the recipient about the recognition transaction and drives performance.

Thankfully, a tight budget and an inability to give bonuses or buy expensive incentives don't prohibit companies from effectively recognizing employees and motivating performance. "The fact that the thought counts more than the price tag is important for people to realize, especially in these challenging economic times," says the Stanford Graduate School of Business. Recognition done frequently and sincerely has a greater impact on a team.

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NON-CASH RECOGNITION PUT TO WORK

When it comes to effective non-cash recognition, giving a meaningful gift is only part of a recognition transaction. For recognition to effectively drive employee engagement and performance, it must also be immediate, specific, meaningful and frequent.

Recognition should be immediate. For the greatest effect, praise should occur as soon after the event as possible. Delaying the recognition for a monthly or annual event diminishes the impact.

Recognition should be specific. Recognize employees for more than a job well done. Praise them for the specific actions they took that contributed to the overall success. Your praise will be more meaningful when it's specifically focused on the individual.

Recognition should be meaningful. Meaningful recognition ties the praise and gift back to an individual's personality, such as their persistence or attention to detail. It's important that the gift is relevant for the situation and the individual's personal preferences.

Recognition should be frequent. Recognizing employees every seven days is a key element to employee engagement, and it also opens the lines of communication about desired behaviors that fuel performance.

To accomplish these criteria, try putting *day-to-day recognition, the genuine everyday expressions of appreciation given to reinforce and reward positive behaviors,* to work in your organization. Day-to-day recognition inherently encompasses the important criteria of effective recognition because it incorporates gifts and notes of thanks in personal and frequent one-on-one recognition transactions. Ultimately, day-to-day recognition serves as communication between managers, employees and peers, consistently reinforcing the behaviors and actions that contribute to organizational performance.

Practicing effective recognition that engages employees and drives performance is simple to start. Equip yourself and peers with small gifts and tools to accompany any and all recognition. Be sure that in every recognition transaction, you're acting immediately, giving specific and meaningful praise, and repeating the habit on a regular basis.

Today, leveraging the talents and abilities of an engaged workforce presents an organization with a significant competitive advantage. Creating a work culture of peak performance requires, among other strategies, the recognition of employee contributions using frequent non-cash rewards.

**DAY-TO-DAY
RECOGNITION
SERVES AS
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BETWEEN
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ABOUT BAUDVILLE

Baudville, the place for daily recognition, continues to be the leading innovator in day-to-day recognition solutions. Baudville's day-to-day recognition solutions appeal to today's increasingly diverse workforce with contemporary designs and relevant messaging, motivating and engaging workplaces world-wide. Baudville has been declared one of the best companies to work for in its area and strives to create the ultimate work experience for its employees.