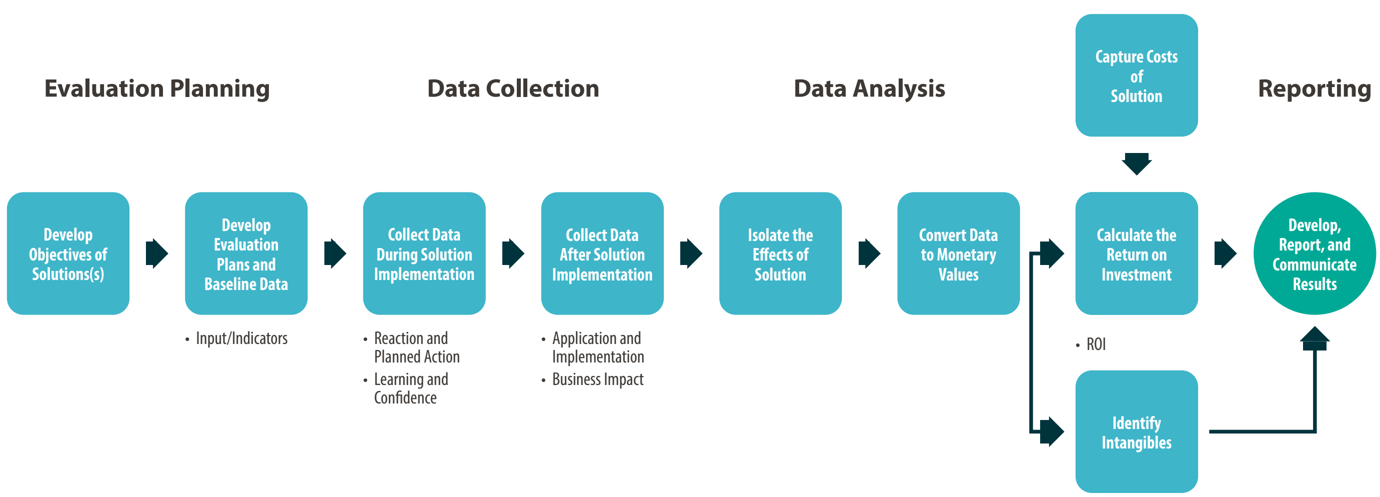
Measuring the Benefits and ROI of Recognition Programs

Measurement of both hard, tangible, and intangible benefits is a best practice necessary for a complete and effective ROI analysis (The ROI Institute, 2013). Both are included in ROI analysis so that a more complete estimation of the full returns of a recognition program can be captured and documented (Phillips, Phillips, & Schell, 2015). By developing a comprehensive understanding of a program's intangible, non- financial benefits through assessment of the value of the program, i.e., "Return on Value" (VOI). A more complete and compelling business case for the use of such programs can be built.

Calculating the Return on Investment (ROI) of Recognition Programs

A relatively small but significant number of firms use formal ROI calculations, such as the ROI Methodology™ (Figure 1) to determine the net benefits of their programs (Dawson, 2017; IRF, 2017; Phillips, Phillips, & Schell, 2015; Incentive Federation, 2015).

Figure 1: The ROI Methodology™ Process and Calculation



The ROI Institute, 2016

An ROI analysis using the ROI Methodology™ compares the full costs of a recognition program to its gains – both tangible and intangible – normally within a one-year time frame after the termination or last cycle of the program. The calculation to arrive at the tangible, financial returns employs simple math: Total benefits minus total costs divided by total costs, multiplied by 100 to get a percentage ROI (Figure 2).

Figure 2: ROI Calculation

$$\frac{\textbf{Net Benefits of Recognition Program (benefits – costs)}}{\textbf{All in Costs}} \quad \textbf{X 100 = \% ROI}$$

Organizations using the ROI Methodology™ should include every benefit that can be credibly converted to money. Obviously, changes in sales and similar hard measures may be the best measure. In these and other programs though, employee absenteeism and employee and customer retention can be accurately converted to hard dollars and should also form part of the equation.

In some settings, changes in employee theft of company assets – including padding expense accounts – and theft of their own time (i.e., arriving late, leaving early) can and should be measured (Ariely, 2016). In wellness programs, organizations might calculate increased enrollment and use of associated benefits and then calculate the hard dollar returns, if any, such as lower health premiums, reduced absenteeism, etc.

In measuring ROI, it is important to consider external factors that might have impacted the results. For example, if the economy changed during the period of measurement, or if a main competitor went out of business, these factors will likely impact the metrics (e.g., sales) used to calculate returns. An attribution estimation, in which those closest to the program determine what percentage of the gains should be attributed to the incentive program, makes the final ROI calculation more accurate.

Supplementing ROI Analysis with Change Point Analysis

It is important to note that in some cases, ROI analysis – even using the ROI Methodology – might miss some of the less obvious costs and benefits of a program depending on the thoroughness of those estimating attribution. To overcome this, consider combining ROI analysis with a "Change Point Analysis" to better understand the effects of your recognition program before, during and after its implementation. Put simply, change point analysis determines if, when and how many changes occurred.

For example, in a 2003 study by the Forum for People Performance and Measurement involving sales contests, researchers using ROI and change point analysis discovered a steady decline in sales – below what would have been expected if the contest were not run – for three weeks before an incentive competition program began. Sales spiked almost vertically when the contest started and then declined for about three weeks after the termination of the contest, despite remaining consistently above baseline expectations.

Using this measurement technique, the research team hypothesized that salespeople deliberately delayed closings a few weeks before the contest began so that they could capture them during the contest, and then worked extremely hard to close as many sales as possible before the contest ended. They hypothesized that sales remained higher than baseline for a considerable period after the termination of the contest because salespeople were closing deals they generated but couldn't finish during the contest. This study reports on a sales incentive program rather than an employee recognition program, but the findings are relevant to both and remain highly relevant today.

Other Considerations

As above, when organizations measure the success of their recognition programs, they tend to focus on the financial benefits. In a 2017 survey of more than 350 U.S. based large firms, the Incentive Research Foundation (IRF) found that more than three-quarters of top performing companies analyze performance data from their employee incentive, recognition and reward programs against data like sales, and use that information to improve decisions (IRF, 2017).

Other typical metrics, perhaps more relevant to broad-based recognition programs, include decreased turnover and increased engagement scores, as well as gains in customer loyalty and satisfaction, and even customer acquisition, where customer lifetime value is known (Bryant, & Allen, 2013; IRF, 2017; Incentive Federation, 2016; Madhani, 2014; 2015; Peltier, Schultz, & Block, 2005).

Other "hard-dollar" measures may include program impact on absenteeism. More granularly, some firms weight absenteeism higher or lower depending on the day of the week. For example, Friday and Monday score higher (worse) than mid-week absenteeism (Devillers, 2017). The notion of weighing impact variously is a central component of Return on Investment (ROI) analysis which aims to establish a full and credible estimation of program benefits.

Measurement of some elements of the intangible returns of incentive, reward and recognition programs seem to be picking up momentum in companies. In 2016, the IRF conducted a study of 137 managers of reward initiatives. When surveyed, they reported being more likely to assess the impact of their reward and recognition programs with regards to employee engagement, customer satisfaction, and overall performance when using exclusively non-cash incentive, recognition and reward programs than when using exclusively cash reward programs (Schweyer, Thibeault-Landry & Whillans, 2018).