

Best Practices for Building Employee Recognition Budgets



INTRODUCTION

Do you know how much your organization spends on the many different types of employee recognition each year? In this best practice report, we provide practical guidance for building your employee recognition budget and your strategy for tracking, managing and ensuring accountability for the alignment of recognition programs with enterprise goals and objectives. A first step in building an enterprise employee recognition budget is to arrive at a definition for what recognition is and why it matters to your organization.

Budgeting begins with a definition of employee recognition and how it influences organizational objectives.

Use the definition below as a starting point. On the following pages, you'll find insights and examples that will help you:

- Decide which types of recognition to include in your budget
- Ensure maximum program participation
- Choose a model for program management
- Make success-based investments
- Determine how much to invest

Trendicators is the research division of Engage2Excel, a leading provider of employee recognition, engagement survey and talent acquisition solutions. Trendicators provides original research, along with reports on insights and best practices from industry leaders and experts.

Employee recognition is the acknowledgment of a company's staff for exemplary performance and tenure with the organization. The goal of employee recognition is to reinforce particular behaviors, practices or activities that result in better performance and positive business results.



Decide which types of recognition will be included in your budget

In the modern workforce, employees have greater autonomy and influence over business outcomes than ever before. This is because technology has changed the way we work. Interconnectedness means that organizations rely less on hierarchical structures in favor of greater collaboration. As a result, the behaviors of individuals and the ability to influence them becomes central to every organization's success.

The goal of your employee recognition strategy should be to reinforce the behaviors and activities

that drive business results. Successful recognition strategies include programs designed to accomplish different objectives. Service awards express widespread appreciation for loyalty. Performance recognition programs target behaviors aligned with specific business objectives. Social recognition enables employees to celebrate one another on a peer-to-peer basis. And onboarding and preboarding programs provide reinforcement at a time when the risk of voluntary turnover is highest.

Nearly 90% of employers offer some form of formal employee recognition program.¹



SERVICE AWARDS: Service award programs celebrate career milestones beginning in year one. These programs positively impact engagement levels and are overwhelmingly favored by all employee groups, including 80% of 25- to 34-year-olds.



PERFORMANCE RECOGNITION: Performance recognition programs address challenges and opportunities tied to strategic business objectives, such as driving innovation, improving collaboration, enhancing workplace safety and increasing workgroup efficiency.



SOCIAL RECOGNITION: Social recognition programs bring an important cultural dimension to employee recognition by adding social reinforcement to the demonstration of important behaviors and corporate values and amplifying recognition across the organization.



ONBOARDING RECOGNITION: Onboarding recognition programs help you create fulfilling experiences that assimilate new employees into your culture and reduce time to productivity. Preboarding programs welcome new hires before their first day on the job.

1. Trends in Employee Recognition, WorldatWork Survey Report

Ensure widespread engagement with an inclusive approach to program design

While the goal of employee recognition is to influence behaviors, the means by which this is achieved is through employee engagement. Effective recognition programs ensure widespread engagement with an inclusive approach to program design.

Most organizations have a broad range of employee recognition activities that take place on any given business day. As the role of recognition in facilitating employee engagement has become increasingly important, so has the need for ensuring accountability and alignment with enterprise objectives. In designing your recognition strategy, make sure that you include

a diverse mix of recognition programs to ensure widespread participation.

Metrics-based recognition celebrates goal achievement in alignment with enterprise strategy. Peer-nominated recognition gives power to individual employees to acknowledge exceptional effort. Manager-nominated recognition provides important individual and team-based incentives. Celebrating service and life events helps to create a culture of appreciation and ensures enterprise-wide participation.

Our survey of 5,000 employees revealed that 70% believe performance feedback from other members of their team is as important as feedback from their manager.²

Metrics-Based Recognition

As the old adage goes, you can't manage what you don't measure. Recognizing achievement for performance in areas such as sales, safety and productivity should be a core component of your enterprise recognition strategy.



Peer-Nominated Recognition

Peer-nominated recognition linked to all or specific company values creates social cohesion and a shared sense of purpose. These programs empower employees and encourage cross-team collaboration.



Manager-Nominated Recognition

Manager-nominated recognition presents leaders with the opportunity to provide positive feedback, spotlighting exceptional performance or improvement within their department.



Service and Birthday Recognition

The celebration of work anniversaries is a foundational component of any recognition program, practiced by 78% of employers. Nearly three-quarters of employees believe these awards improve engagement. And adding work and life milestone programs helps to build a culture of recognition.



² Trendicators by Engage2Excel Survey Report: What Do Employees Say About About Performance Recognition?

Decide which model for program management will work best for your organization

If your organization does not have a well-established, enterprise-wide employee recognition strategy in place, you will need to decide on a model for program management to facilitate change management and ensure accountability. The question is, which model will best suit your organization in creating a culture of recognition?

In the centralized model, responsibilities for program design, budgeting and organizational alignment are centralized in, and owned by, a dedicated group within an organization. This central team is responsible for working with a recognition platform service provider, vetting ideas, soliciting internal feedback, establishing program guidelines and promoting recognition programs.

Under the decentralized model, responsibilities for recognition program design and management are fully distributed among divisions, business units or departments. The challenge with this approach to recognition program design and management is that it lacks scalability and can significantly increase costs.

The federated model is similar to a centralized model, except that key members of the central innovation team are embedded in the business units. Recognition program managers in the business units are responsible for funneling ideas to the central team, as well as for creating awareness and testing the concepts developed by the central team.

Human Resources departments administer recognition programs in half of all organizations; 25% of programs are managed by Compensation departments.³

Centralized

Strong coordination through central core team

Reports to single executive

Accountability for enterprise-wide budget, resources, external partnerships and program effectiveness

Decentralized

Business units own and operate independent programs

Business units form council to share best practices

Little or no enterprise-wide enforcement of policies or standards

Federated

Central core team develops enterprise programs, sets and enforces standards and manages enterprise systems

Business units responsible for execution and delivery of enterprise recognition programs

Allocate 5% to 10% of your budget for opportunistic or success-based investment

It is a simple fact that some of your organization's investments in employee recognition will generate greater participation and results than others. In some cases, under-performing programs may need additional resources to raise awareness and boost participation rates. Other programs may exceed expectations and merit additional funding in order to maximize impact.

Reserving a percentage of your overall budget to address these realities is prudent and promotes a much higher level of accountability by program managers.

Modern recognition and rewards platforms have greatly simplified the logistics of tracking and

managing different types of programs and budget allocations.

Another advantage of reserving a percentage of your overall budget is the ability to fund unanticipated needs or opportunities for influencing or recognizing employee behavior. Examples can include a natural disaster where employees are called upon to volunteer in relief efforts or an unexpected business challenge that requires above and beyond initiative from team members across different departments.

Budget holdbacks are an effective way to optimize your investment in employee recognition programs.

Create an agile culture of recognition by rewarding programs that exceed expectations with additional funding and responding to extraordinary events or circumstances throughout the year.

Examples of projects for allocating reserved funds:

- Additional funding for programs that exceed expectations
- Priority programs that are underperforming
- Recognition for exceptional performance by team members in the face of extraordinary events or circumstances



Enlist business stakeholders to align recognition with enterprise objectives

No matter which model you choose for program design and management, enlisting input from key stakeholders within your organization will be an important way to ensure alignment with business objectives. It also presents an opportunity for identifying important business objectives that can benefit from a structured recognition program to facilitate change management.

Building a high-level architectural view of employee recognition programs and programming opportunities is a great way to help stakeholders understand the strategic value of recognition. Create a one-sentence definition of your goal for employee recognition programming at the center of the diagram. List programs available for all employees on the left and programs that target specific departments or operational functions on the right.

Current programs, such as service awards and recognition of enterprise values, should be evaluated

annually. If you are not currently recognizing employee participation in health and wellness and community service programs, meet with the stakeholders responsible for these areas and your recognition service provider to discuss ways that a formal program can boost participation.

Programs that target specific departments or functions are often administered independently, without the benefit of formal program management. Performance recognition programs take many different forms and cut across all departments. Bringing these and other programs for improving safety, quality and customer service onto a single recognition platform helps to ensure accountability for budgets, participation and program effectiveness or impact.

In evaluating the current state of recognition within your organization, you will likely find many opportunities for improving program effectiveness and organizational alignment.

The average organization uses eight separate types of employee recognition programs.⁴

ENTERPRISE RECOGNITION PROGRAM ARCHITECTURE

Enterprise Programs

Service Awards

Enterprise Values

Health & Wellness

Community Service

Engage, motivate and incentivize employees by recognizing behaviors that align with strategic, cultural and business objectives

Targeted Programs

Performance

Safety & Prevention

Quality

Customer Service

4. Trends in Employee Recognition, World at Work Survey Report

Common methods for calculating your employee recognition budget

There are several ways to determine a budget for incentive and recognition programs. As employers realize that one program does not fit all, many are moving toward the trend of budgeting per program. Different “sub-audiences” in the employee population need to be acknowledged and rewarded for different results with different rule structures.

The three most common approaches for building employee recognition budgets are described below. ‘

The non-redemption of points is another budget consideration in point programs. Not all points issued to employees are actually used to order awards. Non-redemption is usually in the 10% to 15% range and should be used in budget calculations. Also consider whether your incentive or recognition partner is billing

on a points-redeemed model or a points-issued model. While there are cost benefits to both, it is important to understand which model will work best with your budgeting needs.

When budgeting for performance-based programs, it is important to take into consideration the tax implications for the employee. Tax issues vary by state and by type of award and are subject to federal regulations. To help with this expense, most employers “gross up” the awards to alleviate additional tax burdens on their employees. Best practices dictate that employers use Fair Market Value (FMV) calculations to reduce the taxable value of the award to the employee and therefore reduce the amount spent on gross up.

Fixed Budget



A dollar amount is budgeted for the program for a specified period of time, usually 12 months. The business rules of the program are then designed to stay within the confines of that budget. More than half of organizations budget between 0.1% and 0.3% of payroll dollars to employee recognition programs. However, organizations that budget 1% or more of payroll dollars are more likely to agree that recognition programs are fully aligned with their people strategy and important business metrics, such as retention, company values and employee happiness.⁵

Variable Budget



Variable budgets are based on outcomes and vary according to the actual performance achieved. These budgets are usually determined by financially defining the outcomes and what they are “worth” to the company.

To determine the business rules, you must first create a performance-based framework, where employees are both objectively and subjectively measured. This framework can yield significant outcomes if it is designed in collaboration with business stakeholders.

Allocated Budget



Using allocated budgets, each division, vice president, location or manager is allocated a budget for a specified period of time. Budgets are based on stated criteria, which might be:

- A predetermined amount by employee (e.g., \$200 per employee per year). Dollar amounts are translated into an appropriate award or recognition currency, usually in the form of points
- A per-employee amount based on a percentage of payroll
- A flat amount allocated to an organizational group or entity

Four ways to improve the effectiveness of your investment in employee recognition

Make your program an investment and not an expense. Recognition programs are most successful when they align with overall corporate strategies. Creating programs that tie into your organization's business objectives, mission, vision and values are more likely to be embraced by all levels of management. Corporate leadership teams will defend

investments they believe will help grow the business and deliver profits to shareholders.

Looking for ways to improve the effectiveness of your organization's investment in recognition? Here are four ways to improve program effectiveness.

1 Create a written strategy for your employee recognition program

55%

of organizations have a written recognition strategy



How does your organization define employee recognition and the role it plays in driving the behaviors that influence success? Document your enterprise recognition strategy with key goals and objectives and update it every year.

2 Get leadership buy-in on your strategy, goals and objectives

52%

of senior leaders view employee recognition as a business investment



Nearly half of all senior leaders are either unsure about recognition as an investment or view it as an expense. Engage, educate and get endorsement from your leadership on your recognition strategy.

3 Decide on metrics for evaluating program effectiveness

These are the most popular metrics used to benchmark recognition program effectiveness. Select one or more metrics for benchmarking each program. Use year-over-year performance as part of your annual budgeting process.

65%	Engagement surveys
45%	Number of nominations
37%	Participation rate
24%	Customer surveys
23%	Employee turnover
12%	Productivity
12%	Profit
12%	Revenue

4 Provide formal training on recognition for managers

54%

of organizations DO NOT OFFER formal training for managers on employee recognition



Don't assume that managers have the skills they need to effectively recognize employees. Provide training resources to help them understand the "hows and whys" of your various employee recognition programs.

Want professional help in building your budget model?

The recognition experts at Hinda Incentives can help you build a budget model that takes into account the number of employees, average participation rates, investment per recognition type and other key data, based on our experience in working with organizations of all sizes in all industries. We offer a no-obligation consultation session and provide a professionally-built spreadsheet that you can use for internal review and refinement.

**To schedule a no obligation budget consultation:
Call 1.800.621.4412 or email contact@hinda.com**





About Hinda Incentives

Hinda offers a variety of programs that drive engagement through recognition, including:

- Sales Incentives/Recognition
- Customer and Brand Loyalty Recognition
- Employee Recognition
- Performance
- Wellness
- Safety
- Length of Service

Your job is to engage, inspire, and reward your clients, customers, and employees. Our job is to provide the tools to help you do that.

We will guide you through all program development phases—including program creation, launch, ongoing administration, promotion, and fulfillment of rewards—and design solutions that drive performance and engage, inspire, and reward the most important drivers of success: your workforce and customers.

For more information, visit hinda.com