WHITE PAPER:
Optimizing Employee Recognition Programs
The current economic slowdown has made it increasingly difficult for companies to reward their employees with raises in salary and bonuses. Corporations can no longer only rely on augmenting employee compensation to retain experienced and engaged employees. Companies may, however, overcome this challenge by implementing an effective recognition program. Yet opinions differ concerning the ideal elements of a recognition program. For example, programs vary widely in both the number and type of award items offered. Determining the optimal elements of a recognition program can help companies more effectively increase employee engagement and company loyalty without relying on increasing salary and bonuses.

In 2010, we (researchers at The Cicero Group) were commissioned by OC Tanner to identify the characteristics of an employee recognition program that cause an employee to feel most appreciated by their employer. We conducted a rigorous study to specifically answer three key questions: (1) To what degree, if at all, do award items contribute to the recognition experience?  (2) What is the ideal number of award items to choose from? (3) Do award items create a better recognition experience than their cash equivalent?

In this paper we will demonstrate that award items not only contribute to the recognition experience, but are perhaps the most critical element in helping employees feel appreciated. We also show that too many award choices in a catalog can detract from the experience, and that the ideal number is likely in the range of 100 to 500 items. Lastly, we present our findings which suggest that awards create longer lasting feelings of being appreciated than cash. We show that because of the fleeting nature of a cash award, more than half of employees feel more appreciated by receiving an award item than by receiving cash.

**Our Research & Methodology**

The study consisted of two stages. First, we conducted focus groups in Atlanta, New York City, and Los Angeles. Focus group participants were segmented by whether they had been recognized for their exceptional performance (performance-based recognition) or for their years of service (service-based recognition). We conducted both a performance-based and service-based focus group in each of the three cities. Each of the six focus groups included eight participants from a variety of demographic and occupational backgrounds. We asked focus group participants to describe experiences when they had been recognized at work, and discussed what attributes of the experience made them feel appreciated. We also simulated an award selection process of varying numbers of award choices, and discussed participants’ reactions to the experience. In the second
segment of the study, we conducted a randomized, nationwide survey of 600 employees. Survey respondents were also divided into performance and service based response groups. While the same questions were asked to both response groups, they were tailored to focus the respondent's attention on one of the two types of recognition.

When designing the survey, we were particularly careful to ensure that questions accurately measured the intended objectives (construct validity). For this study, we wanted to know what characteristics of a recognition program cause employees to feel most appreciated by their employer. By analyzing the discussions in the focus groups, we were able to identify potential obstacles in the survey design. Our first concern was that many participants were unfamiliar with the wide variety of award programs and catalogs. Additionally, most participants had given little thought to what caused them to feel appreciated by their employer. Throughout the course of a focus group, many participants would express a different opinion as they gained a greater understanding of award programs. Another concern was that participants frequently focused on their preferences as a consumer instead of considering what helped them feel most appreciated. Since the program characteristics that create the greatest degree of preference as a consumer are not necessarily the same as those that help employees feel appreciated, it was critical to encourage respondents to think as an employee and not as a consumer. One way we overcame these obstacles was by including a brief introductory video at the beginning of the survey. In the video we compared award programs with a large number of options, to those with a small number of options, and to cash-based award programs. This introduction created a consistent context from which we could address the research objectives. It also helped to ensure that survey questions would accurately present the constructs of a recognition program and achieve meaningful responses.

Along with construct validity, we took extreme cautious to avoid survey bias. To do so, we utilized the natural language used by focus group participants to develop objective survey questions. By using their words to describe the programs we were able to avoid using our own description that could potentially add bias. Additionally, we conducted rigorous field tests to identify potential bias in any element of the survey design, including the introductory video. Since this study was contracted by OC Tanner, an award program provider with a limited number of award options, we were particularly sensitive not to bias towards fewer items. In the final tests of the introductory video only 7 percent of respondents thought the program with a small number of options was favored over programs with a large number of options and cash-based programs. 33 percent thought programs with a large number of options was favored over the others. 13 percent thought programs with both large and small number of options were equally favored over cash-based programs. 20 percent thought cash-based programs were favored, and 27 percent
thought they were all equally favored. These results clearly show that the survey did not bias respondents towards programs with a fewer number of award choices over a larger number of award choices or cash awards.

Choice-based Conjoint Methodology

Another critical element of the survey design was the choice-based conjoint. Conjoint analysis is a popular market research technique used to calculate degree of preference by statistically analyzing the tradeoffs people are willing to make. In this study, employees were asked to choose which of three programs would cause them to feel most appreciated by their employer. Each program contained a randomly assigned characteristic from one of three attributes: expressed appreciation (a formal thank you from the employer), symbolic awards (company branded mementos that directly represent the employee’s achievement at the company), and personal awards (brand name consumer goods that are awarded to recognize achievement, but are not company-branded mementos). By having each respondent repeat this activity four times, we were able to statistically determine the degree of preference for each attribute as a whole, and for each individual characteristic of the attribute.

To what degree do award items contribute to the recognition experience?

Do award items significantly contribute to the recognition experience? Or could companies achieve the same results and cut costs by simply recognizing their employees. Our study addressed this question in several ways and shows that award items significantly contribute to make an employee feel appreciated and are critical in a recognition experience.

We first addressed this question in the choice-based conjoint. As was mentioned before, the conjoint section of the survey measured degree of preference across three categories of program attributes: expressed appreciation, symbolic awards (mementos), and personal awards (consumer goods). For the average employee, 44 percent of the utility from an award program was derived from a personal award compared to 37 percent from an expression of appreciation, and 19 percent from a symbolic award or memento. Statistical conjoint analysis conclusively shows that the personal award item drives feelings of being appreciated by an employer more than a symbolic award, or a formalized expression of appreciation.

Following the choice-based conjoint, we asked respondents to rank on a 1 to 7 scale with 1 being “not at all appreciated by my company,” and 7 being “very appreciated by my company,” the degree to which the following
program attributes affected how appreciated they felt. On average, a formalized expression of appreciation received a score of 3.48, a personal award received a 4.21, and both combined received a 6.08. The higher mean score for the personal award confirms the results of the conjoint and shows that the award item has a greater effect than the formalized expression of appreciation. Furthermore, the combined mean score of 6.08 shows that these two elements reinforce one another and provide a much more effective recognition experience together than either one could individually provide. By combining either element with the other, companies can increase the degree of effectiveness by roughly 50 percent.

When we asked employees in an open-ended question to describe the ideal employee recognition program, almost all respondents included both an award item and some form of formalized expression of appreciation in their response. These two elements provide a much more powerful recognition experience when implemented together.

What is the ideal number of award items to choose from?

Due to recent advances in production, shipping, and web development, it is now financially feasible to provide a nearly unlimited number of award options in recognition programs. Recognition programs have been evolving to offer an ever larger selection of award items. Yet the paradox of choice is that more is not always better. We may be wrong to assume that more choices will lead to greater satisfaction, and more importantly, to greater feelings of being appreciated by an employer. Better understanding this paradox was an important objective of the research.

We designed the survey to determine the ideal number of award items to choose from in two different ways. At the beginning of the survey (immediately following the video introduction) we asked employees the following open-ended question: “For awards-based programs recognizing employee performance (or ‘years of service,’ depending on the response group), what is the ideal number of award items to choose from?” 95 percent of employees responded with a number of 100 items or less. The median response was 20 items and the mode was 50\(^1\). This is consistent with what we heard in focus groups when participants were asked the same question. However, from the focus groups we perceived that when an employee responded 20 to 50 items, they were usually referring to items that specifically interested that individual. Because of the variety of

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\(^1\) Median and mode are used instead of mean because of the disproportionate range of possible responses. Possible responses range from zero to infinity. This creates a lower limit at zero, but no upper limit. Therefore, the 5% of responses in the larger ranges are weighted extremely heavier in a mean than the 95% that are in the 1 to 100 range. Conversely, the median and mode calculate a more representative average.
preferences across demographic groups, it might require more items to provide 20 to 50 good options for all employees.

Later in the survey we approached the same question as part of the choice-based conjoint. Under the “personal awards” category of the conjoint each of the three program attributes were randomly assigned a different characteristic. Possibilities for personal award characteristics included not receiving an award item, and choosing between, 25, 50, 100, 350, 500, or 2,500 items. The greatest degree of preference was for 100 items.

The responses to open-ended questions and focus group dialogs give us several insights into why a smaller number of award options make employees feel more appreciated. In these responses, employees repeatedly communicated that award programs are most effective when they create a unique and memorable experience. Award programs with fewer options focus on items that fulfill employees’ “wants,” and not just everyday “needs.” This removes the sense of obligation to choose something of need, and allows them to be rewarded with something they would not otherwise purchase. We repeatedly heard comments such as “I actually think 40 or 50 is a good number as long as you make them all significant—something you’ll get and remember.” Many employees also expressed that a selection of more than several hundred award choices was overwhelming and detracted from the experience. A more tailored selection of items felt more personal and communicated a greater degree of effort and interest from the employer. Fewer items created a more carefree and rewarding experience in which the employees could indulge and pamper themselves. One focus group participant summed up the feelings of the group when she said, “I worked hard. I’m the one that kept this job. I want something for me. Make me give it to myself.”

**Do award items create a better recognition experience than their cash equivalent?**

Despite there being strong consumer preference for cash, it is unlikely to make an employee feel appreciated as effectively as an award item. In the focus groups we frequently observed an initial preference for cash awards. Participants repeatedly mentioned the limitless spending options as a significant benefit over an award item. Yet when encouraged to focus on the recognition experience and not just consumer preferences, many participants acknowledged several limitations of cash as a recognition item.

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2 NY, NY Focus Group Participant
3 Atlanta, GA Focus Group Participant
One limitation participants frequently cited was the likelihood of spending cash quickly and on unrewarding items such as paying the bills or buying groceries. Using cash on unrewarding items is detrimental to a recognition experience because it does not provide the lasting effects from the continued use of an award item. When asked to rank the significance of 16 different characteristics of a recognition program, survey respondents ranked the “continued use of an award item” second behind only the “value of the award item.” Additionally, respondents ranked “the ability to select a unique award item that represented a ‘want’ not a ‘need’” as the third most significant characteristic. If cash is likely spent quickly and on unrewarding items, it does not achieve either of these important characteristics of a recognition experience.

The problems with cash as a recognition item are sufficiently limiting that 52 percent of surveyed employees responded that awards provide a longer lasting recognition experience than the cash equivalent. When asked why, they indicated the same limitations that were cited in the focus groups. For example, 42 percent of respondents who chose awards over cash said that awards create longer lasting feelings of being appreciated because of the continued use of the award item. 22 percent said they chose awards because cash is spent quickly and forgotten. 21 percent said the award would be around longer. Respondents chose awards over cash because of the more lasting effect of an award item. Conversely, 48 percent of respondents who chose cash over awards cited reasons that focused largely on the benefits to the shopping or consumer experience. For example, 61 percent of those that chose cash said they did so for the unlimited uses of a cash award. While limitless spending options might enhance the consumer experience, it is unclear how the additional options increase feelings of being appreciated. Perhaps the most conclusive data suggesting that cash is an ineffective recognition item are the respondents’ descriptions of the ideal recognition program. To conclude the survey we asked respondents in an open-ended question to describe the ideal recognition program. Only 21 percent of respondents included a cash award, compared to 57 percent who included an award item.

Companies can help their employees to feel more appreciated by implementing the correct elements of a recognition program. The recognition experience should be distinct from a consumer experience. Striving to provide the ideal consumer experience by including the largest number of award options or cash awards is unlikely to help employees feel more appreciated. Instead employers should optimize the recognition experience by creating a memorable and rewarding experience. In the ideal recognition program, employees should select a personal award from a limited number of award choices. These awards should be unique items the employee “wants,” and not just “needs” to provide a sense of luxury and pampering. A Recognition program should emphasize the employee’s achievement and include a formalized expression of appreciation. By
adhering to these findings, companies can create a more meaningful and lasting recognition experience.

About The Cicero Group:

The Cicero Group (www.CiceroGroup.com) is a research and economic analysis firm located in Salt Lake City. The majority of findings reported in this commentary came from an independent research project commissioned by the OC Tanner Co.