

Recognition: A Powerful, but often Overlooked, Leadership Tool to Improve Employee Performance

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Executive Summary

A key dimension for effective leadership involves reinforcing and motivating others to encourage superior performance. Financial and non-financial rewards can be utilized for this purpose. This paper explores the background on the nature and importance of employee recognition as an effective leadership tool and reports the results of a survey examining the value of recognition to all levels of employees in a large, nonprofit institution. These employees indicated they value highly personalized recognition for a job well done as a critical dimension of their reward system. These findings provide further evidence that employee recognition should be given more attention by leaders as they attempt to meet the retention and productivity challenges facing today's organizations.

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Introduction

A problem that continues to confound today's organizations is the burdensome drain of financial and human resources caused by employee turnover. For example, a recent survey of 378 companies summarized in *HRfocus* (September, 1998) noted that turnover rates continue to hold around 15%. More alarmingly, the data indicated that the individuals most likely to leave an organization were from critical areas such as information technology, sales, marketing, and customer service. In addition, the survey indicated that it cost nearly \$10,000 per employee to replace these key personnel.

In the aftermath of downsizing, employee loyalty also is on the decline. According to the workforce commitment index (WCI), a significant drop in worker commitment from 1995 - 1998 has been noted. The index showed lower employee commitment across all industries and job functions, with customer service workers falling the lowest (Stum, 1998).

Although these figures seem daunting, reducing costly turnover and driving up employee commitment and loyalty may not be as expensive and difficult as it would appear. For example, in a recent poll taken by the Menlo Park, California-based outplacement firm Robert Half International, 25 percent of HR executives said a lack of recognition was the most likely factor causing a good employee to quit his or her job (Wallsten, 1998). Data from a recently released study from the Hay Group indicate that factors such as recognition for a job well done, respectful treatment, and coaching and feedback were considered more important than pay in terms of worker commitment (Stum, 1998). Survey findings such as these have strong implications for the effective leadership and management of people in today's organizations.

The purpose of this paper is to explore how non-financials such as recognition and attention can be used as an effective leadership tool for rewarding employees. First, some of the pertinent literature relating to the importance of non-financial rewards and their relationship with effective leadership is reviewed. Next, the results of a survey conducted to seek the reactions of employees across all levels ($n=254$) in a large nonprofit organization to a proposed employee recognition program are discussed. Implications and recommendations concerning the relative value of non-financial rewards as an effective leadership technique conclude the paper.

The Rewards-Effective Leadership Link

A primary activity of any type of leader involves motivating and reinforcing others to encourage superior performance (Whetten & Cameron, 1991). Put in another way, theories of motivation encourage leaders to tie important outcomes to desired behaviors. Thus, whether managers endorse some variant of expectancy theory (Porter & Lawler, 1968) or reinforcement theory (Skinner, 1974), the message is clear: To sustain motivation, leaders must demonstrate to employees a close link between performance and rewards (Campbell, Campbell, & Chia, 1998).

The relative importance of motivating and reinforcing others was reflected in the "Real Managers" study (Luthans, Hodgetts, & Rosenkrantz, 1988). In this extensive study conducted over a four-year period, the researchers examined what types of management activities were typically associated with successful versus effective

leaders. The successful leader was defined in terms of the speed of promotion within an organization. The effective leader was defined as (1) getting the job done through high quality standards and (2) getting the job done through people, requiring their satisfaction and commitment. Interestingly, the successful leader was found to spend a majority of their time networking with others than did their less successful counterparts. However, the effective leaders - the one's who delivered quality results through satisfied and committed employees, were found to spend a majority of their time actively managing human resources through motivating and reinforcing their value-enhancing behaviors and communicating with them on a regular basis.

In general, there are two basic types of rewards that leaders can utilize to positively reinforce performance-enhancing behaviors. The first is money. Certainly pay plays an integral part in rewarding employees and reinforcing positive behaviors. This is especially true of pay-for-performance systems which seek to reward individuals or teams in a direct relation to their contribution to organizational success. Research has consistently noted that when implemented correctly, pay-for-performance programs can be a strong motivator and have a significant impact on the bottom-line performance of an organization. For example, Kaufman (1992) noted that the implementation of IMPROSHARE (a type of group gainsharing plan) had a positive impact on manufacturing productivity. Specifically, it was found that firms that implemented IMPROSHARE had, on average, decreased defect and downtime rates while productivity increased by 15% over a three year period. A comprehensive survey sponsored by the American Compensation Association (ACA) placed a dollar value on the positive impact of pay-for-performance techniques. It found a 134 percent net return; i.e., for every \$1 of payout, a gain of \$2.34 was attained (Gibson, 1995).

Thus, the effectiveness of monetary incentives, especially when linked with performance outcomes, seems apparent. However, often overlooked is the importance of providing employees with non-financial rewards such as recognition and attention. This second type of reward can be very effective and efficient because it doesn't cost anything, is available for everyone to use, and no one gets too much of it. Some representative quotes from Nelson's (1994) best-selling book, *1001 Ways to Reward Employees*, help to highlight the importance of non-financial rewards as an effective leadership technique.

“Recognition is so easy to do and so inexpensive to distribute that there is simply no excuse for not doing it.” - Rosabeth Moss Kanter, Author and Management Consultant.

“We all like to be recognized and appreciated. Just by giving an award or recognition certificate, formally recognizing someone in front of a group or even buying a cup of coffee, we're telling the employee that their work is appreciated.” - Harvey Stein, President, Stein & Read Incentives.

The importance of recognizing individuals for their contributions is clearly reflected in these quotes. In any type of situation, effective leadership depends on reinforcing, motivating, and rewarding value enhancing behaviors in order to spur superior performance. As such, a closer look at the positive impact that recognizing people

can have on organizational performance will be taken. In addition, some specific examples of effective recognition programs which have been implemented successfully will be reviewed.

A Leadership Tool for Performance Results

The idea that employee recognition can serve as a powerful reward is certainly not new. Herzberg (1966) noted that consistently and frequently applied formal and informal recognition programs provide management with a powerful tool to influence employees to live the company's values and implement its focused mission. In other words, he recognized the importance of reinforcing behaviors that contribute to organizational success. By specifically reinforcing expected behaviors, leaders signal to employees that their efforts are noticed and appreciated.

Considerable basic research has supported the notion that non-financial rewards can be a potent leadership tool which can have a significant, positive relationship with organizational performance. For example, in a recently completed meta-analysis of behavioral management studies over the past twenty years, it was found that social rewards (recognition and attention) had as big an impact on employee performance as did monetary rewards (Stajkovic & Luthans, 1997). In particular, results of the meta-analysis indicated that service organizations which used recognition as part of their O.B. Mod. Intervention found on average a 15 percent performance improvement. When recognition was combined with performance feedback an average increase of 41 percent in manufacturing and 30 percent in service organizations was found (Luthans & Stajkovic, 1999). This is just one example that indicates the relative importance of non-financial rewards for effective leadership and organizational performance results. Other specific examples of employee recognition programs and their relationship with improved performance will now be reviewed.

Employee Recognition Programs

Surveys through the years have supported the importance of non-financials as an effective leadership tool. For example, a survey conducted by the Society of Inventive Travel Executives Foundation found that 63% of respondents ranked "a pat on the back" as a meaningful incentive (Lovio-George, 1992). In another survey examining the value of 65 potential incentives, four out of the top five rewards ranked by employees as the most motivating were initiated by their manager, based upon performance, and required little or no money.

Although the surveys all define non-financial rewards a little differently, the common theme is that they do not cost anything. According to Graham and Unruh (1990), these powerful non-financial incentives can be operationalized as follows:

1. A manager personally congratulating an employee for a job well done.
2. A manager writing a personal note for good performance.
3. A manager publicly recognizing an employee for good performance.
4. A manager holds morale-building meetings to celebrate successes.

Other examples of non-financial reward systems can be found in both the academic and practitioner literature. For example, Kerr and Slocum (1987) noted that organizations which recognize and respect their employees tend to retain their

workers for longer periods of time because of increased loyalty and commitment. In actual practice, Nelson (1995) cites the effectiveness of Travel Related Services (TRS) "Great Performers" employee recognition program. TRS began by displaying life-sized posters of famous people performing their greatest feats throughout the company for many weeks. The company then began to picture TRS employees on posters, with a statement of a major accomplishment by each employee. The effects of this employee recognition program were very positive. According to TRS, the "Great Performers" program has helped to increase the company's net income by 500% over an 11 year period. In addition, the company's ROE since the program began has been 28%.

Another recent real-world example concerning the effectiveness of employee recognition is provided by Yaeger (1998). In this case, Dierbergs Markets were concerned with the exceedingly high turnover rates of their employees. To combat this problem, Dierbergs implemented a formal recognition and feedback program. As a result, turnover has almost been cut in half over a six year period - from 50% to 28% currently.

According to Verespej (1998), Chevron Chemical's recognition program has also been very effective. At Chevron, the "Bringing Out the Best" program has been implemented to recognize employees immediately for a job well done. Employees report that they are pleased with their on-the-spot recognition. In fact, a recent survey noted that 90% of Chevron's employees ranked the new system as very successful or good.

A final representative example is provided by Boyle (1996) who noted the value-added contribution of the "100 club" employee recognition program implemented by the Diamond International Corporation. Since formalizing their employee recognition system, the company has experienced a 16.5% increase in productivity, a 48% decrease in absenteeism, and a 41% drop in industrial accidents.

The benefits of well executed recognition programs such as described above seem clear. Nelson (1995) provides a good review of some characteristics which distinguish an effective employee recognition program as follows.

1. *Recognition should be immediate.* Recognition should be given as soon as possible after a desired behavior has occurred. Increasing the time between the target behavior and reward devalues the reward and diminishes the reinforcement value.
2. *Recognition should be delivered personally.* The power of social rewards derives from the way they are delivered. The fact that a manager is taking time to recognize or praise an employee underscores the importance of the activity to the employee. In addition, time taken by peers or subordinates to recognize a job well done can also be very effective. In fact, these types of upward recognition can serve as even greater rewards because they are unexpected and not required of the colleague.
3. *Recognition should be valuable.* Social rewards should be valued and meaningful to the individuals who receive them. For example, some employees may value their autonomy and would prefer to be thanked in private. Other employees may be interested in having the recognition highly visible to increase their promotion

opportunities. Finally, some may prefer rewards that recognize the team's or group's contributions. Whatever the case might be, tailoring the rewards to the needs of the recipients is a good idea.

4. *Recognition should be a direct reinforcer of desired behavior.* In other words, recognition should not be phony or given superficially. The key is to give rewards which positively reinforce desired behaviors.

Now that some research and practice highlighting the effectiveness of employee recognition has been given and some useful guidelines for delivering employee recognition have been outlined, the results of a brief survey conducted for this article examining the importance of employee recognition in a large, public, not-for-profit, service organization will be reviewed. The survey findings provide further support for the importance of recognizing individuals for their work contributions. Implications from these findings can serve as a point of departure for specific recommendations for more effective leadership in today's organizations.

Survey Results Concerning Employee Recognition

The 254 respondents to a short questionnaire survey on reactions to a proposed recognition program represented a cross-section of a large organization. These respondents included management, maintenance, support staff, and front-line employees. In general, the survey results revealed strong support for the increased need for recognition throughout the organization. A more detailed breakdown of the survey results follows.

Need to Recognize

The first question asked the employees if there was an increased need to be recognized for their work contributions. In general, Table 1 shows the respondents overwhelmingly supported this idea. In fact, 243 of the 254 respondents (96%) indicated an increased need for recognition was necessary.

TABLE 1 - The Need For Employee Recognition

<u>Recognize</u>	<u>n</u>	<u>% of Total</u>
Yes	243	96
No	9	04

The results here are similar to other previously noted studies which confirm the value of employee recognition. As discussed earlier, recognition can be a very powerful reward for employees. Importantly, few people become satiated or filled up with recognition. Therefore, Recommendation One for more effective leadership in this organization and others would be to increase the use of non-financial rewards by using creative techniques to recognize employees for outstanding contributions as often as possible.

Criteria

The next question asked the respondents to judge the criteria for which someone should be recognized. Table 2 shows that the findings here were somewhat varied. Interestingly, in this unionized environment, length of service was not ranked as high as other performance-based criteria such as quality of work.

TABLE 2 - Criteria for Recognition

<u>Criteria</u>	<u>n</u>	<u>% of Total</u>
Quality	205	81
Performance	183	72
Work Contribution	167	66
Service/Seniority	165	65
Other	33	13

A sampling of the written comments falling in the "other" category included being recognized for: "attendance", "outstanding work, timely response and resolution of problems", "customer service", "adding-value", "exemplary demonstration of work ethic", and "willing to be cross-trained with other departments". In reviewing the responses and written comments, it appears that the employees responding to this survey prefer to be rewarded based upon objective, measurable criteria. Therefore, Recommendation Two is that leaders should base recognition rewards not on mundane length of service or subjective factors, but more on objective, performance-enhancing behaviors.

Recognition Type

The final survey item asked the participants to indicate which type of recognition they would favor. Although most mentioned tangible recognition rewards such as a gift certificate or luncheon which do cost the organization, but very little relative to pay incentives, an equal number mentioned public acknowledgment in the newsletter was sufficient. However, most interesting were the written comments in the "other" category. Importantly, the respondents indicated that social recognition rewards were highly valued. A sample of the written comments included the following: "just someone saying thanks", "more respect", "a nice note", or "a letter from the President or a personal thanks". These comments reinforce the notion that social rewards such as attention, recognition, and sincere appreciation can be very powerful. In fact, these types of social rewards may be even more valued than tangible recognition rewards such as gift certificates because they are highly personalized and more meaningful. One comment clearly demonstrates this point, "it's the recognition that counts - not just the gifts." Therefore, Recommendation Three would be to provide genuine recognition and appreciation for desired performance behaviors.

One overall implication for effective leadership from these survey findings would be to realize the importance of utilizing various types of recognition when reinforcing value-added behaviors. First, formal recognition programs should reward individuals with personalized and valued incentives such as gifts or personal notes/letters. More importantly, however, leaders should also be trained to

contingently administer social rewards on a conscientious, day-to-day level to identified performance behaviors. In addition, these rewards should be positive, instant, and specific. This is not to suggest that phony praise should be given or that the social rewards should be indiscriminately given, but to make sure that leaders and others (peers and subordinates) are recognizing and positively reinforcing behaviors that have been identified to lead to performance improvement and indirectly retention of the employee.

Conclusion

To summarize, the growing research and practitioner-oriented literature and the results of the survey reported here provide considerable support for the importance of employee recognition as an effective leadership tool. In specific, the results from this survey have indicated that employees place a high value on personalized, specific, and instant social rewards such as attention, recognition, and sincere appreciation. Although the organization surveyed considered that it was already recognizing employees for their work, an overwhelming majority of employees felt that more recognition was highly desirable. The data also revealed a preference for recognition based upon efforts which contribute to organizational success - not false praise or automatic length of service recognition.

The implications from this survey seem apparent. As leaders continue to look for ways to meet the productivity, motivation, and retention challenges of today's organizations, the increased recognition of their human resources must be of primary importance. As discussed, employee recognition can be highly effective and motivational while costing the organization little or nothing to implement. To summarize a point made by Nelson (1994), if you give employees a choice, the thing they will say has the greatest, most significant impact is a personal, spontaneous, and sincere thank you for a job well done. The message here is not to diminish or detract from the importance of other types of rewards such as monetary incentives. Rather, the research and, with the supporting survey results, point out that important, but often overlooked, simple, but sincere recognition is a as potent tool for effective leadership.

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