

Motivation You Can Measure™

An Innovative Approach to Recognition ROI
That Even a CFO Will Love



Motivation You Can Measure™

Surprise your coworkers with a little something special!

Summary

More and more organizations are moving toward centralized reward and recognition programs for greater program efficiency and effectiveness. Yet, far too many are failing to take what may be the most important step toward reaching these goals. That crucial step is proving their program's return on investment (ROI) through a process that is specific, well-designed, practical and ultimately converts the results of the program into monetary values that the company's executive team and program leadership cannot only support, but embrace.

Business impact data must be converted into monetary values and presented in a compelling format to have an effect on leadership. Inspirus—a company that offers recognition and rewards solutions that combine professional services with unmatched rewards designed to not only inspire employees, but also drive measurable performance results—knows this to be true.

Too often, C-suite executives and program leadership never get to see the kind of business-driven data they can convert them into active proponents of recognition and rewards programs. They simply don't get the documented evidence they need to support program managers who know recognition has a meaningful impact on the bottom line of the business.¹

But even without formal training or experience in this area, the recognition program manager can pull together a business case—if they have a partner to help them and a map showing them the way.

This paper offers an innovative approach for assessing the ROI for recognition programs. It is an approach that provides a picture of recognition ROI that is meaningful, defensible and able to support the development of any organization's recognition program.

The paper is divided into four sections:

- I. Return on Investment and Return on Recognition (ROR) Defined
- II. The ROI Process: Implementation and Barriers
- III. Best Practices
- IV. Measurement Model

¹ Fierce Inc. White Paper "ROI of Skillfull Conversation" www.fierce.com

I. ROI and ROR Defined

It's important to understand two key terms at the core of calculating the business impact of recognition. The first is a standard business concept—return on investment (ROI). The second is a term unique to rewards and recognition—return on rewards (ROR).

ROI shows the monetary benefits of the of the program compared with its costs. This includes both hard and soft costs, which we look at in greater depth later in this paper.

ROR shows the complete picture of the business returns for your organization's recognition program—including all of its reward and recognition components (monetary, business impact and intangible).

The intangible returns on recognition may not always show up on the balance sheet or income statement, but they do deliver value to the business and its workforce, and need to be accounted for in evaluating the true ROI of recognition.

In other words, the return on recognition is not only measured in financial terms, but also in terms of culture changes and attitudes.²

One Example of an ROI Calculation

$$\text{ROI} = \frac{(\text{Net benefits} - \text{Program Costs})}{\text{Program Costs}} \times 100$$

Benefits of program = \$430,000

Costs of program = \$230,000

$$\text{ROI} = \frac{(\$430,000 - 230,000)}{\$230,000} \times 100$$

ROI = 87%

II. The ROI Process: Implementation and Barriers

To appreciate the impact of an effective and meaningful ROI process—and to help sell the idea to leadership— it's helpful to grasp not only the most common reasons that implementing ROI is beneficial, but also the most common barriers to implementation.

Benefits of ROI Implementation

Implementing an effective ROI approach yields five primary benefits to support the growth and expansion of your recognition program.

- 1. Measures a program's contribution to the organization.**

The ROI will determine whether the benefits of a program, expressed in monetary value, outweigh its costs.

- 2. Sets clear priorities.**

Successful programs can be expanded, inefficient programs can be redesigned and redeployed, and ineffective programs can be discontinued.

3. Brings focus to results.

A results-based process requires program owners and business leaders to concentrate on measurable objectives.

4. Builds respect from senior executives and program sponsors.

Measuring the ROI of programs is one of the best ways to earn the respect of your senior management team and your program sponsor.

5. Creates positive changes in management perceptions.

Changing perceptions is an important step in building a partnership with management and boosting support.³

Barriers to ROI Implementation

Business studies and our experience with clients tell us that organizations usually use one or more of four common reasons for not implementing an effective, well-designed ROI process. But each of the four reasons is most often based on misunderstanding or a failure to appreciate the potential of the ROI process.

PERCEPTION	REALITY
Implementing an ROI methodology will add cost and time to program evaluations.	The added cost and time should not be excessive. A comprehensive ROI process can be implemented for only a small percentage of a program's budget.
Recognition and reward program owners do not understand ROI or have the basic skills necessary to apply the methodology within the scope of their responsibilities.	Proper training of program owners in ROI methodologies will heighten the value of the measurement process of program participation metric's.
Many recognition programs are undertaken without an adequate needs assessment or thoughtful design process because of the perceived need to "do something quick."	A thoughtful and comprehensive assessment and program design process can overcome the misperception that the program will be eliminated because it is not needed or designed well.
Fear of failure or the unknown prevents owners from pursuing an evaluation of ROI.	The need to rework programs does not mean they were always ineffective. It only means they need to be adjusted for current and future needs.

³ Fierce Inc. White Paper "ROI of Skillfull Conversation" www.fierce.com

The ROI Process

Overcoming misconceptions and barriers will prove the monetary value of your recognition program. This can best be accomplished through five steps.

- Stage 1: Evaluation planning - develop and review program or project objectives; evaluate plans and assess baseline data to be collected
- Stage 2: Data collection - include data from before and after program implementation
- Stage 3: Data analysis - isolate the effects of the program
- Stage 4: Developing ROI - include converting data to monetary value and calculating ROI; account for intangible measures
- Stage 5: Reporting - general impact study report

III. Six ROI Best Practices

Organizations that generate demonstrable ROI through metrics share six best practices. Adopting these practices can make a huge difference in the quality of your ROI process.⁴

1. Establish evaluation targets: When evaluating components of your recognition initiative or program, include the number of programs, resources, all costs and efficiencies.
2. Perform micro-level evaluation: Evaluate programs individually so the ROI methodology can be linked to a direct payoff.
3. Use a variety of data collection methods: Match the data collection methods with the programs.
4. Isolate the effects of the program: Isolate any influences such as sales initiatives or new product launches that may have occurred during the same period so they don't skew results of your ROI analysis.
5. Sample for a more accurate view: Determine how many ROI evaluations are appropriate.
6. Convert program results into monetary values: Convert data points into monetary units so that each program's benefits can be compared with the costs.

IV. Measurement Model

Along with the six best practices, there are also six levels of recognition measurement—levels zero through five. All recognition programs, if ROI is on their radar at all, operate at the most basic level—zero.

⁴ Phillips, Patricia Pulliam, Ph.D., *Data Collection – Planning For and Collecting All Types of Data*, published by Pfeiffer.

Level zero represents all of the inputs contained in the measurement model—regardless of how you work them into the ROI methodology. Level zero specifically answers the question: “What are we considering with our measurement approach?”

Hard Data and Soft Data Measures

Hard data provides the primary measure of improvement presented as rational, undisputed facts. This data is usually gathered within functional areas throughout an organization.

By contrast, soft data consists of values that represent attitudes, motivation and satisfaction. They are less objective than hard data. Soft data is typically behavior-oriented, and organizations place great emphasis on the measurements it provides. The challenge regarding soft versus hard data is converting soft measures into monetary values. The key to a successful conversion is to remember that ultimately, all roads lead to hard data.

V. Circular Communications: A Hypothetical Case Study

To illustrate the process and outcomes of an effective recognition ROI process, let’s walk through the ROI process of Circular Communications, a fictitious company created by Inspirus for this example. Here are some basic statistics about Circular:

- Circular provides telecommunication services to midsize and larger businesses
- It has 5,000 employees
- The average employee’s annual salary is \$70,000 (not including benefits)
- Payroll is \$350 million
- Recognition budget is one percent of payroll. However, Circular did move several years ago from Generation 1 to Generation 2 on the Recognition Maturity Index™. (For a full explanation of this concept and its importance in creating a successful recognition program, download a complimentary copy of the Inspirus paper, “Understanding Your Place on the Recognition Maturity Index™,” available at www.inspirus.com/resources located under resources and whitepapers.
- Circular is spending about \$3.5 million across multiple programs
- With its new enterprise approach to centralizing all of its recognition programs, the aggregated \$3.5 million budget is centralized and managed by HR



ROI : Methodology at Circular

Suzy, the HR director at Circular, knows the key to effective ROI is capturing the measures that reflect the content of the project, and focusing on issues such as usefulness, relevance, importance and appropriateness. To that end, she is going to structure her business case to build ROI along the five levels of measurement.

To accomplish this, Suzy will put together a data collection plan to document the data she plans to collect as she proceeds through measurement levels one through five.

Here is a quick look at Circular’s recognition program initiatives and the amount spent on them by category:

Circular’s Recognition Portfolio of Programs and Budget

Service Awards	\$200,000
Retirement	\$40,000
Wellness	\$300,000
Peer-to-Peer	\$200,000
SPOT Awards	\$450,000
Sales Contests	\$750,000
Safety	\$250,000

Total \$2,190,000

Circular Communications’ data collection plan should be completed for each program—within each level of measurement—in five steps:

1. Identify the business objective (the targeted business impact of the recognition initiative)
2. For each objective at each level, identify the measures or metrics associated with it.

3. For each measure of each objective:
 - Document where the data will come from
 - Document the specific sources for the data
4. For the measurement level: Determine how often the data will be gathered, compiled and analyzed.
5. For the measurement level: Document the roles and responsibilities for each process.⁵

Here is a quick look at Circular's recognition program initiatives and the amount spent on them by category:

	Sales Awards	Wellness Program
1. Broad Program Objectives	<ul style="list-style-type: none"> • Increase sales on standard services • Increase sales on special promotions 	<ul style="list-style-type: none"> • Reduce health care costs through HRA completion, activities, education and special promotions
2. Measures	<ul style="list-style-type: none"> • Sales growth 	<ul style="list-style-type: none"> • Health Education program participation • Number of Health Risk assessments completed • Health Promotion activity participation
3. Data Collection/ Source	<ul style="list-style-type: none"> • Company records • Salesforce.com metrics • Sales reports 	<ul style="list-style-type: none"> • Smoking cessation class attendance • Survey completions • Health club reports • HRA completion report • Health and Safety participation reports
4. Timing and Frequency	<ul style="list-style-type: none"> • Monitor monthly • Analyze at one year 	<ul style="list-style-type: none"> • Monitor monthly • Analyze at one year
5. Responsibilities	<ul style="list-style-type: none"> • HR Program Coordinator • Sales Manager 	<ul style="list-style-type: none"> • Health & Wellness Coordinator

⁵ Phillips and Phillips, Isolation of Results – Defining the Impact of the Program, published by Pfeiffer.

ROI: Building the Business Case

This is measurement level four (only 3 to 5 percent of organizations seek to achieve). This level will make the biggest difference in building better recognition programs.⁶

At level five, Suzy returns to our definition of ROI and applies the data she has collected.

Measurement Level Four, ROI: Wellness Program

- Program benefits: \$1,123,875
- Program costs: \$385,500
- Benefit-Cost Ratio (BCR): \$2.92

ROI: 192%

Measurement Level Five, ROI: Sales Program

- Program benefits: \$6,297,014
- Program costs: \$1,070,610
- Benefit-Cost Ratio (BCR): \$5.88

ROI: 488%

The following images show the Excel spread sheets of the data used to calculate ROI for Circular's Wellness and Sales Programs—along with the calculations used to determine their ROI. It's important to note that the spreadsheets show ROI, but not Circular's ROR (return on recognition).⁷



Measurement Area	Total Annual Value	Basis	Method for Converting the Data	Contribution Factor	Confidence Estimate	Adjusted value
Sales Growth (Standard Services)	\$17,543,261	YOY Growth	Standard Value	33%	70%	\$4,052,491
Sales Growth Roadrunner I	\$2,480,800	YOY Growth	Standard Value	33%	70%	\$575,375
Sales Growth Roadrunner II	\$7,225,752	YOY Growth	Standard Value	33%	70%	\$1,889,149
TOTAL						\$6,297,014
BCR	\$8,287,014	Benefits				
Benefit-Cost Ratio	\$1,070,610	Costs				
	\$5.88					
ROI	\$8,287,014	Benefits				
Return On Investment	\$1,070,610	Costs				
	\$5,226,404					
	\$4.88					
						488% ROI

$$\frac{\text{Benefit} - \text{Cost}}{\text{Cost}} = \text{ROI}$$

$$\frac{\$6,297,014 - \$1,070,610}{\$1,070,610} = 4.88$$

$$4.88 \times 100 = 488\%$$

Measurement Area	Total Annual Value	Basis	Method for Converting the Data	Contribution Factor	Confidence Estimate	Adjusted value
HRA Completion	\$310,000	0% Plan Savings	Standard Value	75%	80%	\$168,000
Three Health Education Units	\$270,000	1% Plan Savings	Standard Value	75%	70%	\$141,750
Health Campaign Activities	\$270,000	1% Plan Savings	Standard Value	75%	70%	\$141,750
Smoking Cessation	\$540,000	2% Plan Savings	Standard Value	75%	70%	\$263,500
Health Club Membership & Attendance	\$158,000	12% Plan Savings	Standard Value	75%	70%	\$70,875
TOTAL						\$1,123,875
BCR	\$1,123,875	Benefits				
Benefit-Cost Ratio	\$385,500	Costs				
	2.92					
ROI	\$1,123,875	Benefits				
Return On Investment	\$385,500	Costs				
	\$738,375					
	1.92					
						192% ROI

$$\frac{\text{Benefit} - \text{Cost}}{\text{Cost}} = \text{ROI}$$

$$\frac{\$1,123,875 - \$385,500}{\$385,500} = 1.92$$

$$1.92 \times 100 = 192\%$$

6 Phillips and Phillips, Data Conversion – Calculating the Monetary Benefits, published by Pfeiffer.

7 Phillips, Jack J., Ph.D., and Lizette Zuniga, M.A., – Costs and ROI – Evaluating at the Ultimate Level.

Suzy understands that recognition has a monetary and non-monetary impact on business. To bolster her ROI calculations, she must include the value of intangible returns. Combined with ROI, this will provide a true picture of the Circular's ROR.⁸

Intangible benefits that contributed to Circular's ROR include:

- Being listed as a Best Place to Work
- Increased commitment
- Improved teamwork
- Increased job satisfaction
- Improved customer service scores
- Improved communication

VI. Summary

Utilizing this innovative, proactive approach to recognition ROI has many benefits—everything from providing a valuable assessment of the current programs to garnering solid support from senior management.

A meaningful ROI process can be accomplished if you have a good partner in the planning process and follow a well-researched and proven road map. Keeping these eight summary points in mind, too:

1. ROI shows the monetary benefits of impact measures compared with the cost of the project.
2. ROR (return on recognition) shows the monetary and intangible returns related to investing in recognition that delivers value to the business and its workforce.
3. The ROI process must be simple and easy to implement, credible, flexible and incorporate all types of data.
4. ROI implementation measures a program's contribution, and helps managers understand that projects and programs are investments.
5. Implementing ROI methodology requires discipline.
6. Best-practice companies evaluate individual programs rather than the entire recognition initiative.
7. There are six levels of measurement—zero through five. They measure inputs, reaction and employee satisfaction, program participation, budget utilization, business impact, and ROI.
8. Hard data is measurable and factual. Soft data represents attitudes, motivations and satisfaction.

⁸ Czarnecki, Mark T., *Managing By Measuring – How to Improve Your Organization's Performance*, published by AMACOM, 1999 © Inspirus 2017

Sources

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3. Phillips, Patricia Pulliam, Ph.D., and Jack J. Phillips, Ph.D., ROI Fundamentals – Why and When to Measure Return on Investment, published by Pfeiffer.
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About Inspirus

Inspirus believes employees make up the foundation of culture, which is shaped and evolved through everyday experiences that are essential to the development of strong, high-performing organizations. We seek to influence the employee experience through our six Quality of Life dimensions: recognition, health and well-being, personal growth, physical environment, social interaction, and ease and efficiency.

Only Inspirus combines an integrated rewards engine, learning courses, communication tools and analytics into a single global platform spanning recognition, well-being, safety, milestone awards and community involvement. Through Sodexo’s broader mission of improving the Quality of Life for all we serve, Inspirus aims to [bring joy to work](#), one experience at a time.

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