THE ELEMENTS OF AN EFFECTIVE REWARD SYSTEM

Namely | **Bonusly**

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INTRODUCTION

What we'll be discussing:

- The fundamental importance of motivation
- Why employee reward systems are a crucial element of motivation
- The key elements required for an effective employee reward system
- How to design and implement reward systems effectively

Our goal for this guide is to build and expand on your knowledge of reward systems by exploring the science and best practices behind successful programs and to help you to implement one that drives every member of your organization forward daily.

Let's Get Started

1

MOTIVATION'S CRUCIAL ROLE IN SUCCESS

WHY MOTIVATION IS CRUCIAL TO SUCCESS

Motivation is the fuel that keeps your organization running. Without it, there's nothing to drive you and your team forward—no source for innovation, and nothing to keep them pushing toward the same goal.

This isn't the only way motivation impacts an organization. There are a number of systems that can actively de-motivate a team, even though many of them are designed to do the opposite.

In order to build an effective reward system and avoid making negative progress, it's important to have a firm grasp on the fundamentals of motivation.

COMMON MISCONCEPTIONS ABOUT EMPLOYEE MOTIVATION

In most cases, an organization's goal for employee motivation is to find a simple and effective method of motivating and supporting employees to achieve the best possible results while maintaining these secondary objectives:

- Limit administrative overhead
- Avoid disrupting workflow
- Keep costs in check

These are legitimate and achievable goals. Unfortunately, they are often implemented with a myopic attitude, resulting in rewards that lack imagination, feel cheap, and fail to motivate as intended.

In his book Carrots and Sticks Don't Work, Dr. Paul Marciano discusses the disconnect between our surface-level understanding of motivational systems and our expectations for their outcomes in practice. As he explains:

"We have been led to believe that the same principles that get a mouse or pigeon to 'work hard' are the ones that we should use to make human beings more productive."

> **In other words, many organizations use reward and motivation strategies that are asymmetric to the work they're intended to influence.**

As Dr. Marciano points out, employees are not performing tasks as simple as pressing a bar, and they aren't doing it in return for something as simple as a food pellet. The tasks employees perform and the roles they play in their organizations are often creative and multifaceted—but the rewards they receive aren't.

THE FUNDAMENTALS OF EMPLOYEE MOTIVATION
Employee motivation can be broken down into two major categories: **extrinsic** and **intrinsic**.

Extrinsic Motivation

Extrinsic motivation comes to an individual from external sources. It's not something a person can generate for themselves. Extrinsic motivators can exist across the spectrum, from positive to negative. Some examples of extrinsic motivators are:

• Salary
• Bonuses
• Deadlines
• Peer pressure
• Managerial pressure

Intrinsic Motivation

Intrinsic motivation is something you find within yourself, and it can't be given to you. Similar to extrinsic motivators, intrinsic motivators also exist across a spectrum, between positive and negative. Some examples of intrinsic motivators are:

• Purpose
• Accountability
• Passion
• Duty
• Anxiety

The most effective reward systems find the intersection between intrinsic and extrinsic motivation.

Can a motivator be both intrinsic and extrinsic? Motivators that bridge the gap between intrinsic and extrinsic motivation *do* exist.

Praise and recognition are extrinsic motivators that come from outside an individual; however, they can inspire multiple sources of intrinsic motivation, like purpose and accountability.

FOR EXAMPLE...

The Situation
Keisha wrote some groundbreaking code for her company's latest mobile app. Her colleagues praised her, recognizing that achievement, and pointed out that her work made it easier for people across the world to use and benefit from their product.

The Motivation
In this example, Keisha gained extrinsic motivation from the praise she earned, and intrinsic motivation from knowing the impact her work will have on the outside world.

The Results
Keisha now not only knows that her colleagues appreciate the great work she's done, but is also reminded that her work has an influence on the world and a driving purpose.

THE CONCLUSION

Rewarding employees with a greater sense of ownership regarding their organization, their processes, and their work is another way to provide extrinsic motivation with intrinsic benefits: As Laszlo Bock, Google's former HR Chief, explains in his book *Work Rules*,

"Building an exceptional team or institution starts with a founder. But being a founder doesn't mean starting a new company. It is within anyone's grasp to be the founder and culture creator of their own team, whether you are the first employee or joining a company that has existed for decades."

Organizational structures that provide that extrinsic sense of ownership (or foundership), carry the added benefit of providing intrinsic motivation, like a stronger sense of purpose.

There's also the benefit of transforming **accountability** from an extrinsic motivator (something you must be actively held to by an outside force) to an intrinsic motivator (something you've accepted and embraced).

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HOW EFFECTIVE REWARDS SYSTEMS MOTIVATE

HOW DO THE MOST EFFECTIVE REWARD SYSTEMS APPROACH MOTIVATION?

To answer that question, there's a need for greater context. Positive intrinsic and extrinsic motivating factors can make a significant difference when things are already going fairly well; if things are already a mess, a reward system won't turn things around on its own.

> **To put it simply: the environmental factors that demotivate employees are different from those that motivate them.**

The lack of demotivational factors is not the same as the presence of positive motivational factors. You can eliminate as many **demotivational factors** as you want, but removing them won't necessarily motivate your team. You can also implement positive **motivational factors**, but they're not going to have much effect if there are too many demotivational factors present.

THE TWO-FACTOR THEORY BY FREDERICK HERZBERG

Psychologist Frederick Herzberg developed a theory around motivational and demotivational factors called the motivator-hygiene theory or the two-factor theory.

In his seminal Harvard Business Review article, "One More Time: How Do You Motivate Employees?" Herzberg explains that:

"Managed badly, environmental factors make people miserable, and they can certainly be demotivating. But even if managed brilliantly, they don't motivate anybody to work much harder or smarter. People are motivated, instead, by interesting work, challenge, and increasing responsibility."

The key is to start by eliminating as many of those demotivational factors as possible—in other words—keep up with your motivational hygiene. Once demotivating factors are under control, positive motivators will have a stronger impact.

Motivational hygiene might not sound as fun and exciting as adding a ping pong table to your common room, but it will have a more significant impact on your officemates. This doesn't mean a new ping pong table is a bad idea, it just means you should address that bouncing payroll check first.

Seem insurmountable to manage all this at once? It's not.
There are elements you can add to a reward system that tackle both motivational and demotivational factors at the same time.

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THE ELEMENTS OF SUCCESSFUL REWARD SYSTEMS

WHAT MAKES A REWARD SYSTEM SUCCESSFUL?

1. Recognition / Praise
2. Comprehensiveness (Rewarding Large & Small Wins)
3. Equity
4. Timeliness
5. Specificity
6. Culture Alignment
7. Measurability / Benchmarking

1 **RECOGNITION / PRAISE**

Recognition and praise are two of the least costly, yet most powerful rewards an organization can provide its employees. Recent research by Bersin by Deloitte confirms the impact frequent recognition can have on an organization's bottom line.

In addition to their low cost and considerable impact, recognition and praise provide a cohesive foundation for other elements of a recognition system. While money is a fungible resource, meaning your competitors' salary dollars are identical to yours, a recognition-rich culture is not.

FOR EXAMPLE...

$ **Company A**

Company A offers employees a salary of $60,000/year and never shows appreciation for the contributions its employees make.

Company B

Company B offers employees a salary of $60,000/year, but recognizes its employees for their great work and shows genuine appreciation for it on a regular basis.

Which company would you choose?

Benefits packages for both companies are identical, and neither Company A or Company B provide bonuses. **Good pay and benefits are table stakes for any top candidate.** The key to both short and long-term success is offering these table stakes while adding something extra that only you can provide: a rich, unique, and rewarding organizational culture.

2 COMPREHENSIVENESS

The most effective reward systems applaud both big and small wins. It's crucial to recognize the connection between big wins and the small wins required to achieve them.

How do you move a mountain? One stone at a time.

> **Big successes don't often come without a lot of smaller ones.**

To encourage a steady, consistent string of small successes, it's crucial to recognize and reward them all.

Whether it's the senior salesperson who finally closed a huge new client, the CS specialist going the extra mile to delight every customer, or an intern on the marketing team whose brilliant campaign idea attracted new leads, it's vital to ensure everyone is rewarded. Each link in that chain is equally valuable, and when the pressure is on, equally crucial.

If recognizing and rewarding all those contributions sounds like a lot of work, you're right. It is a lot of work for one person; however, empowering and encouraging all employees to recognize and celebrate the successes of their peers distributes that work across the team, ensuring more frequent, timely, and specific recognition without limiting productivity in other areas.

3 EQUITY

An effective reward system is also a fair system. One of the most common, yet avoidable sources for controversy in an organization is the equity with which team members are compensated and rewarded for the work they do. Without equity, motivational tools can become the source of animosity and disengagement, defeating their entire purpose. Recent research conducted by World at Work found:

"Reward professionals believe that employee perceptions of fairness and equity have a strong influence on employee engagement, commitment and tenure."

You can't really expect to provide equal compensation for every employee. It would be cost prohibitive, and not everyone comes to the table with the same skills or background. But that's OK.

$ **It's not just about the money.**
This might seem counterintuitive, but in the same study, the importance of recognition and career development opportunities were represented to a much greater degree than base pay or merit pay.

✓   **So how you can ensure your reward system is equitable?**
It's easier than you might think. Start by focusing on the things you know you can provide on an equal basis, like recognition and career development opportunities.

In addition to focusing on those elements, communication is a huge factor. In their summary, the authors of World at Work's report explained that: *"Reward communications was, by a wide margin, the most significant theme reported in terms of the factor that impacts perceptions of reward fairness (at 62% of all open ended responses)."*

Not only are reward communications a crucial tool for improving perceptions of a reward system's fairness, they're equally likely to erode perceptions of fairness when they're done poorly.

4 TIMELINESS

Timely rewards are often more effective than rewards that are handed out on a weekly, monthly, quarterly, or annual cadence. As time passes without praise, its potential for positive impact decreases, and in its absence, the potential for negative impact increases. It's also easier to forget to give it in the first place. When someone is rewarded soon after making a valuable contribution, it provides a clear connection between the act and its reward.

CONSIDER THIS...

Scenario 1

An employee puts together one of the best presentations you've ever seen. The whole team is impressed with how great it was and **lets** her know as soon as she **finishes**.

Scenario 2

As in Scenario 1, an employee puts together one of the best presentations you've ever seen, but no one on the team tells her. Weeks go by and everyone forgets about it — everyone except the employee who went above and beyond. Even if her manager mentions how great the presentation was during her next review, the praise will not feel as pertinent or meaningful after so much time has passed.

How do you ensure timely rewards?

Start by making a simple personal commitment to it. Whenever it's possible, reward great contributions right away. This doesn't mean the responsibility needs to fall entirely on management, though. It could simply be a commitment to ensure there's an atmosphere that

promotes and rewards great contributions in a timely manner. Coworkers may not always be able to impact their colleagues with financial rewards, but they're just as able to reward their teammates with recognition, and their recognition counts for a lot.

5 SPECIFICITY

It's important to reward employees for their great work, but also to share why they're being rewarded. Rewards and recognition have a greater potential for impact when they're specific to the contribution that is being made. By making rewards specific, you're able to provide guidance on which actions are most valuable to the team and to the organization as a whole.

WHY IS SPECIFICITY SO IMPORTANT?

Non-specific praise can be perceived as impersonal, further degrading its effectiveness. Consider the difference between these two interactions:

Interaction 1:
"Thanks for all your great work this year, Jennifer."

Interaction 2:
"Thanks for all the thoughtful upgrades you made to our codebase, Jennifer. They have dramatically improved our app's performance, and the customer experience. You're a priceless asset to our team!"

Jennifer's not just being rewarded with recognition of her coding skills, she's gaining an understanding of how to apply those skills in a way others on her team will appreciate most.

Not only is this an opportunity to show each employee which of their contributions are highly valuable, it's also an opportunity to show other employees what valuable contributions look like and help them to take similar action.

6 CULTURE ALIGNMENT

A great reward system fits and reinforces the values that make up your organizational culture. While each of the elements we mentioned earlier can be implemented into any culture, it's worth considering how they'll apply in each company's unique environment.

How do you manage that?

One of the easiest ways to ensure your reward system aligns with your organizational culture is to take an active role in defining, building, understanding, and supporting it.

This isn't a job that is relegated to senior leadership.

Any member of an organization can be a culture leader.

It's something that everyone is taking part in every day. Whether consciously or not, each member of an organization, and each initiative implemented within it makes an impact on culture.

That impact can be thoughtful and deliberate, or it can be left to chance.

Rewards and culture are part of a two-way feedback loop: each does its part to help define the other. Your rewards influence organizational culture, and also speak volumes about it.

Think about the culture you're working to define, and whether your reward system supports that vision.

7 MEASURABILITY / BENCHMARKING

There are countless tools and philosophies focused on employee reward systems but one critical question always remains: are the effort and resources allocated to a reward system actually producing results?

The only way to know for sure is to measure it. But how do you measure it effectively?

People Analytics

Employee Surveys

PEOPLE ANALYTICS

Advanced people analytics tools are more prevalent and accessible to businesses of all sizes than they ever have been before. Although some of these tools still seem out of reach for many small to medium-sized businesses due to price, or a lack of data, the knowledge gained from them isn't.

In a recent interview for the Bonusly blog, Lisa Donchak of the Wharton People Analytics Conference explained that over time, some people management truths will emerge from the research done by larger organizations:

"As we continue to do research, we'll find out what those truths are. Many of those truths will be very low hanging fruit that companies can deploy easily. As these truths are discovered and shared, other businesses will benefit–even if they are not conducting their own people analytics research."

Whether you're able to conduct your own people analytics research, or piggybacking on research from a larger organization, you can learn a lot about how reward systems affect a team and use that knowledge to strengthen yours.

EMPLOYEE SURVEYS

One of the easiest and most direct ways to find out how well a reward system is working for your team is to ask them. There are countless ways to do this, from specialized software to company-wide communications.

The key to making these surveys effective is asking the right questions and asking them in a way that will elicit a quantifiable response.

No matter how you choose to measure the effectiveness of your reward system, it's important that you're doing it with the goal of improvement.

Find out which elements of your reward program are truly working, which ones aren't, and check back in regularly.

All the measurement in the world won't make much positive impact without action.

4

INTEGRATING REWARD SYSTEMS

INTEGRATING REWARD SYSTEMS

As you introduce elements of an effective reward system—or revamp your existing system—it's critical to think holistically. Remember that the presence of motivating factors isn't effective if there are too many demotivating factors. After all, you're building a system, fitting together multiple pieces that must work together.

You now know the ingredients of an impactful reward system: recognition, comprehensiveness, equity, timeliness, and measurability. So how do you integrate these within your existing HR practices?

- Talent Acquisition
- Learning and Development
- Performance Management
- Employee Engagement
- Total Compensation

TALENT ACQUISITION

When it comes to hiring, your employer brand takes center stage from day one. This is a prime opportunity to set expectations around company culture and build a foundation for key intrinsic motivators, like passion and purpose.

It's up to your talent acquisition leaders, hiring managers, and interviewers to convey the company's mission. During the interview process, evaluate whether the candidate buys into your mission as a predictor of what will drive his or her engagement in the role.

FOR EXAMPLE...

The Situation
Your company is in e-commerce, and for every purchase made, the company donates a product to a person in need. Community and giving back are core to your values.

The Ask
You ask a candidate what most excites her about the opportunity, and she responds, "I love your mission and the opportunity not only to drive ROI, but to give back at the same time."

The Results
That's a positive indicator your mission is something that will motivate the candidate.

LEARNING AND DEVELOPMENT

It's often in the best interest of the company to grow talent from within. Case in point: the annual cost of turnover for a 100-employee organization can top a whopping $1 million.

Offering opportunities for learning and development can play a vital role in your reward system. In fact, learning and development can be offered as a reward in and of itself.

FOR EXAMPLE...

The Situation
Let's say an employee has exceeded a goal, made a significant impact, or reached a certain level of tenure.

The Opportunity
Instead of a cash reward, consider funding an opportunity that will help the employee grow. Paying for them to attend a relevant conference or a class they're eager to take will grow their skillset and foster feelings of goodwill.

The Results
The employee will feel valued for their contributions and experience the reward in a tangible way; the company will benefit from their employee's increased knowledge and engagement.

PERFORMANCE MANAGEMENT

Many companies now take a multi-pronged approach to performance management, combining ongoing and informal employee feedback with formal review cycles. Whether your strategy incorporates one or both of these elements, rewards have a home here.

Informal Feedback

When it comes to making employees feel appreciated, timeliness is one of your best tools. Empower (and remind) people managers to give employees positive feedback for successes, no matter how large or small. More importantly, encourage the whole company to share positive feedback outside of 1:1s between employees and managers.

Employee wins should be celebrated across all layers of the organization.

FOR EXAMPLE...

The Situation

Mark closes a huge sales deal. Mark's peer congratulates him on the win via the team's Slack channel.

The Opportunity

Mark's manager shares the good news at the next all-hands meeting, during a regularly scheduled appreciation segment.

Formal Feedback

Structured cycles of performance reviews are the perfect opportunity to practice the comprehensiveness of your reward system. Whether your reviews are solely top-down or 360, encourage all those who provide feedback to think about wins both large and small.

Further, ensure that there is a clear framework for the review and metrics associated with any rewards. Many companies use a scoring system or rating scale for their reviews. If applicable, outline how certain ratings will impact rewards eligibility.

Whatever your company policy, clearly communicate the guidelines so that everyone knows what to work towards.

EMPLOYEE ENGAGEMENT

It's disheartening, but true: the majority of employees—63 percent, according to a 2015 Gallup poll—are not engaged at work.

A great reward system, however, can help turn that around. Employees who feel valued are more likely to enjoy going to work, collaborating with colleagues, and pushing the company forward.

Employee engagement can be hard to measure. But by gathering related data and metrics, you can gain valuable insight on where to direct your rewards efforts.

You might learn, for instance, that a specific department is feeling overworked and under-appreciated after a huge initiative. You might identify demotivating factors that should be removed from the workplace immediately.

TOTAL COMPENSATION

As the name suggests, total compensation requires you to be comprehensive in your approach.

> **Your ability to compensate employees is not just limited to a paycheck.**

You can also pull levers like benefits packages, equity, and, of course, rewards. Financial rewards, like spot bonuses or additional equity grants, are key extrinsic motivators. But as you now know, the most effective reward systems combine both intrinsic and extrinsic motivation.

Using compensation as an effective reward isn't as simple as writing a check. It should be done within the same guidelines we've shared.

FOR EXAMPLE...

The Situation

The HR manager announces a new employee award of $100, to be given to someone who goes above and beyond to represent a core company value. One of the company's tech teams has a new release slated for Friday, but on Thursday afternoon, they discover a bug.

The Solution

Sarah, who is a developer on another team, offers to jump in and help. She pitches in, pulls an allnighter, and they solve the problem—keeping the deploy on schedule. Sarah's manager learns of her hard work, nominates her to HR, and she's given the award the next week. Her manager forwards the good news to the rest of her team, and the congratulations pour in.

The Results

Here's why that was a success:

- Everyone in the company was eligible (Equity)
- The reward was given quickly (Timeliness)
- The reward was given for a particular action–pitching in on a last-minute project (Specificity)
- She won because her actions matched the company's value of teamwork (Cultural alignment)
- It wasn't about a quarter-long goal, but it was linked to a small and immediate win (Comprehensiveness)
- Sarah's manager emailed the team with the good news (Recognition/Praise)

It doesn't take a lot, but it does take a thoughtful strategy.

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CHOOSING VENDORS

Managing a reward system along with your myriad other HR duties, particularly if you're a small (or solo) HR team, can be daunting. But that's where technology can help.

As SHRM puts it:

"The entire recognition process should be managed with a minimum of administrative effort. A system that requires excessive management control, complex financial calculations or exceptional employee efforts to be understood will not likely achieve its desired results."

In other words, while all of these concepts might be nice ideas, you'll need a system to transform ideas into reality. And more importantly, you'll need to automate processes in order to sustain your reward system.

Here are some key questions to ask as you evaluate recognition tools.

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FUNCTIONALITY

Which features are most important to me?

Perhaps you care most about your ability to give financial compensation or easy ways for employees to appreciate each other.

What does it do?

Make sure the software checks the boxes for your top priorities and aligns with your objectives.

Is it flexible?

Your ideal solution should allow you to customize features for your company.

INTEGRATION

Does it connect to my existing software solutions?

Consider how easy it would be for the tool to integrate with your current tools—or understand if it expands your technology stack in a meaningful way. For example, Bonusly allows microbonuses to be shared over Slack, and Namely connects appreciations to employee profiles, which is helpful during performance review season.

USABILITY

Is it easy for me to use?

Give it a test spin to see how intuitive it is, and whether you like the look and feel.

USABILITY (CONT'D)

Is it easy for my employees to use it?

You know your workforce better than anyone, so consider what the ideal solution looks like for them (e.g. desktop vs. app).

How much time will it take me to manage?

Software is meant to save you time, so make sure that's indeed the case.

How much time will it take for employees to participate meaningfully?

If tools are a distraction from their work responsibilities, it will be hard to encourage significant engagement.

As you go through the software evaluation process, take advantage of all available information—from demos to peer feedback, find out what works and what doesn't.

6

SUMMARY

Developing an effective reward system can have a powerful impact on everything from recruitment to performance, engagement, satisfaction, and retention. That impact can be positive or negative, depending on how the reward system is designed and implemented.

To make sure your reward system has the greatest positive impact possible, remember these key points:

Motivation can come from both internal (intrinsic) and external (extrinsic) sources. A great reward program leverages both. Eliminating demotivational factors is just as important as adding additional motivational factors to your reward system.

The most effective reward systems include these elements:

- Frequent recognition
- Inclusiveness
- Comprehensiveness
- Equity
- Timeliness
- Specificity
- Measurability

Integrating your reward system into other HR programs and initiatives can further increase its impact.

There are a lot of excellent tools out there that can dramatically improve user experience and cut back on the amount of resources you need to administer your reward program. When you're evaluating vendors, it's crucial to consider a few things:

FUNCTIONALITY
- What features are most important to me and my team?
- How flexible is this tool?

INTEGRATIONS
- Will this tool complement the tools I'm currently using?
- Will this tool enhance the tools I'm currently using?

USABILITY
- Is this tool easy for me to use?
  - How much time can I expect to spend administering this tool?
- Will my employees enjoy using it?
  - Is it easy to access from anywhere
  - Is its design user-friendly?

With those things in mind, you're ready to build or manage a truly effective and impactful reward system. We can't wait to hear your success story!

ABOUT BONUSLY

Bonusly is peer recognition that works for thousands of organizations across the globe by fostering a culture of empowerment, positive feedback, and shared purpose. Empower your entire team to celebrate successes, reinforce values, and strive toward shared goals with recognition that is inclusive, flexible, timely, effortless, and insightful. Mobile apps and integrations meet your team wherever they are, and allow them to give meaningful recognition using the tools they already love. With a global catalog of the world's most popular brands available instantly, Bonusly makes rewarding great work as simple as it is impactful.

Schedule a demo with a recognition expert to learn more!

ABOUT NAMELY

Namely is the first HR platform that employees actually love to use. Namely's powerful, easy-to-use technology allows companies to handle all of their HR, payroll, benefits, and time management in one place. Coupled with dedicated account support, every Namely client gets the software and service they need to deliver great HR and a strong, engaged company culture. Namely is used by over 800 clients with over 120,000 employees globally.

Schedule a demo to see how Namely can help your company today!