



Maximizing ROI and Minimizing Risk Across Rewards Programs



ABSTRACT

Incentive program participants will offer their opinion that more reward choice will better motivate them, but giving into their opinion may not always be in the best interest of the participant or the company.

Why?

If used haphazardly, certain rewards designed to increase choice can actually degrade program effectiveness, work against the brand image and even increase liability for the organization.

Executive Summary

Companies rely on rewards programs to retain and motivate employees and sales partners. For this reason, it makes sense to listen to those individuals and pay careful attention to what they believe will motivate them. But what they say they want is not always in the best interest of the reward program — or the company.

A spectrum of reward options is available today. The options include tangible and other non-monetary rewards such as travel, merchandise and filtered reward cards. Alternatively, buyers can choose monetary-based rewards such as open reward cards, reward cards with ATM access and even cash. As the field of options continues to expand, companies must carefully consider the impact of the rewards they choose and the risks associated with those choices.

In evaluating their rewards programs, responsible companies should weigh several factors in order to come to an informed decision. Specifically, they should consider the following:

Tangible rewards drive effectiveness

Tangible rewards are imbued with meaning. This quality makes them more powerful in increasing focus, motivating change and creating lasting positive associations about an employer —three very desirable outcomes. Ironically, research shows that defaulting to giving employees cash may deplete the meaningfulness of a reward – and its presence and potency in the employee's memory.

Tangible rewards can reinforce corporate values

Tangible rewards can be purposefully aligned with corporate culture. Carefully selected rewards or retailer options have the potential of reinforcing the desired behavior – plus the brand values. In contrast, giving program participants unrestricted reward choices introduces new risks, enabling the erosion of values and reputation through ill-aligned selections/spending.

Tangible rewards carry less legal risk

Tangible rewards do not create substantial legal or regulatory risks. In contrast, many types of reward cards can invite potential legal risks by creating opportunities for willful and accidental fraud and regulatory abuse. From money laundering to the USA Patriot Act, a new range of vulnerabilities arises when broader reward card options are introduced.

Research seems to suggest that employees' desire for choice is short-sighted – and the resulting benefit to rewards programs is short term. Forward-thinking companies should see around this corner and seek a solution that satisfies the employee-driven need for choice while retaining the many positive attributes of more tangible rewards.



The Reasons for Rewards

Reward programs exist to recognize and motivate employees and sales partners – to establish an association between desired behaviors and positive results so that they understand corporate expectations and know how to succeed in the eyes of the company. Their mere existence can drive sales, reduce cost, promote innovation or align an organization towards a brand promise. These programs have also been successful in increasing retention of key employees and producing greater discretionary selling effort among sales partners.

In fact, in a recent Maritz poll, 66 percent of employees surveyed reported that the opportunity to earn tangible rewards keeps them loyal to their employer.¹ Rewards don't simply shore up employee loyalty; they also create milestones for team members to aspire to and ensure that a system is in place to honor good work.

Rewards are often a part of the relationship between company and employee, and maintaining and strengthening relationships is a delicate process – part art, part science. Companies must recognize that while salary and sales compensation plans are an appropriate place to exchange cash for performance, rewards are an opportunity to take the relationship further and create a more meaningful connection with employees and sales partners.

Motivation Comes from Meaning

It should come as no surprise that employees believe they would prefer to receive additional incentives through their rewards programs. Many believe that monetary based rewards – such as cash or cash cards – will drive their behavior most effectively. But what is surprising is the often ineffective and problematic nature of these incentives.

When companies accommodate employee desires to expand reward choice, they may be making a mistake. Expanded choice has the potential to create disconnect between the behavior companies wish to motivate and the reward itself, paving the way for both decreased performance and changes in employee attitudes. Further, options like cash and cash cards may invite erosion of the brand and create legal vulnerabilities. Employees who believe they are attracted to unfiltered reward cards or cash are more likely, in reality, attracted to enough

choice to offer something personally meaningful to them. Because cash and cash cards can be exchanged for almost any good or service, these rewards seem to offer the broadest field of options to employees. But this seeming advantage is more likely to disable rewards programs' power to motivate.

Offering cash or a cash card is easy, but it is not always optimal. Companies will have a better chance of accomplishing goals, achieving greater ROI and mitigating risk if they apply more science to the art of reward and recognition. Through research that identifies organizational and individual motivation profiles, organizations can understand what motivates and is personally meaningful to individuals within their culture. Only then can they develop an effective mix of highly motivating rewards.

Evaluating the Options

In spite of the desire by participants to have no restrictions on reward spending, research clearly shows less than stellar results now emerging from experiments with monetary based rewards. Yet companies will continue to feel pressure to shift to cash cards or cash incentives to keep programs fresh and placate their participants. In the face of this onslaught, businesses would do well to understand the sliding risks associated with adopting this type of reward strategy.

Risk #1: Monetary based rewards are less effective – circumventing opportunities to build more meaningful relationship through intrinsic value.

Risk #2: Monetary based rewards create disconnect to the brand – eliminating associations between the reward and both the behavior and the corporate values, and enabling the erosion of values and reputation through ill-aligned spending.

Risk #3: Monetary based rewards increase legal vulnerabilities – exposing the company to risks by creating opportunities for willful or accidental fraud and regulatory abuse.

The optimal approach to rewards strikes a balance, incorporating employees' desire for choice with companies' need to maximize the motivational power and ROI of their program. Ultimately, offering employees the right number of choices in the right categories will differentiate a company – and motivate its employees – far more than a monetary based reward plan can.



Risk #1: Unrestricted rewards damage program effectiveness

A recent study has provided new insight into the benefits of tangible, non-monetary rewards. In the two-month study of 431 call center representatives, Dr. Scott A. Jeffrey of the University of Waterloo discovered that, on average, program participants who were being motivated with tangible, non-monetary rewards actually thought about their un-earned reward nearly 40 percent more than did a control group working towards the exact same goals for a cash reward of equal value.²

Furthermore, the study was able to quantify that the call center representatives working towards the tangible incentive had almost 25 percent greater commitment to the goals and offered roughly 10 percent higher performance than those working for cash.

This study clearly demonstrates three important points. First, employees visualize tangible rewards much more frequently than cash rewards. Second, employees who visualize rewards have both greater goal commitment and greater performance. And third, despite common assumptions that low income earners are best motivated by cash, the call center representatives in this study proved that a tangible reward will still have a greater impact on program effectiveness.

But why does visualizing a tangible reward have a measurable link to performance? New research conducted by management expert David Rock and research psychiatrist Dr. Jeffrey Schwartz helps answer that question.

In their research, Rock and Schwartz linked human behavior to science. They studied how people reacted to different situations and connected the results to actual electronic activity occurring in the brain. What they found was significant in explaining "why" tangible rewards are more effective.

Basically, the human brain functions much like a roadmap. Accomplishing any task from walking and talking through assembling a complex sales proposal requires a unique set of neuro-pathways to be established. When behavior is repeated over and over the pathways become well traveled like a superhighway. But when a person is asked to do something differently, they may need to create a brand new pathway – often a painful and frustrating experience.

However, the study found that when a person applies "focus," they become more determined to formalize new pathways – as if an entire road crew is at work establishing a connection. Repeated focus then leads to "attention density" – the process of visualizing the change to create lasting mental maps over a specific period of time.

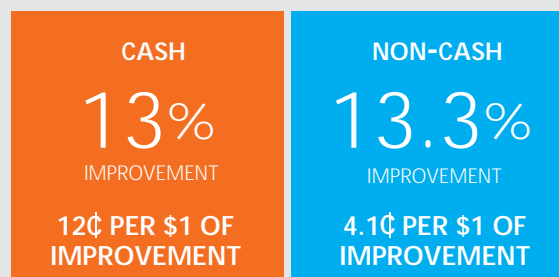
When viewed through this lens, the study comparing tangible and cash-based rewards becomes even more compelling. If employees receiving tangible rewards spend more time anticipating and remembering these rewards, then they are more likely to apply focus – a distinct advantage over another who is expecting cash compensation. Additionally, employees eligible for tangible rewards have something concrete to visualize over a period of time – thus building attention density. And as the reward is obtained, the positive reinforcement strengthens the connections further. Over time, old pathways lose prominence, allowing employees to more easily adopt newly reinforced behaviors.

Simply put, tangible rewards offer more to companies seeking improvement and lasting change. And while this benefit is substantial, it is not the only one suggested by Jeffrey's study.

Exhibit 1:

The financial benefit to these tangible reward programs can also be quite significant. A study entitled "People, Performance and Pay" showed that achieving an incremental performance gain of 13 percent with cash rewards required three times the investment of a non-cash incentive, making the non-cash incentive an obvious choice for those concerned with ROI.³

People, Performance, and Pay



Non-cash awards **3X** more cost effective



His research also indicates that those who received tangible rewards reflected a higher level of “perceived organizational support.”⁴ In essence, these individuals had a stronger affinity with their employer, which resulted in their demonstrating many desirable traits:

- More commitment to their organization
- Fewer instances of absenteeism, turnover and deviant behavior
- More frequent engagement in “citizenship” behaviors
- More willingness to go above and beyond their job descriptions for their employer

Companies aiming to motivate, inspire change and foster citizenship among their employees through their rewards program must take into account the significant advantages of more tangible rewards suggested by these and other studies.

Risk #2: Participant Spending Effects on Company Reputation

Every company has a stake in its reputation. A corporate reputation is often carefully crafted and built at significant expense. It is a piece of brand personality and brand promise, and it is one reason customers come back to – or turn away from – a business.

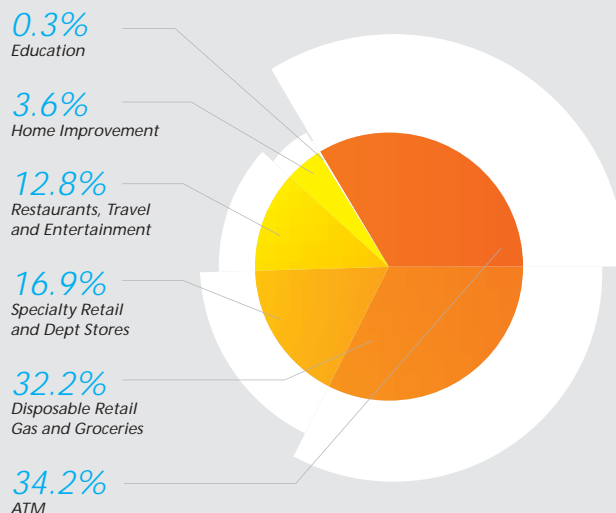
Properly leveraged, rewards programs are an opportunity to reinforce corporate reputation and values. For example, a brand whose reputation is associated with safety would ideally have a different rewards strategy than one that has built a reputation based on risk taking. Giving employees and sales partners rewards that reflect the corporate values is a way to build community and differentiate a corporate culture and brand.

Companies that shift towards unfiltered cards or cash incentives miss a vital opportunity to create powerful associations between the values of the company, the desired behavior and the community. Further, they open themselves up to the possibility that recipients may spend the reward in ways that directly oppose the corporate vision and values. Imagine the implications if a sales representative at a children's toy company is spotted using his company-branded rewards card at an adult entertainment club. This would reflect neither the intent of the reward nor the values of the company that offered it.

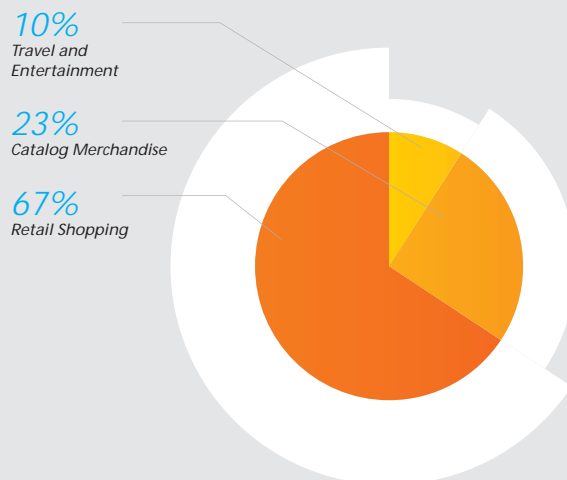
Exhibit 2:

Research conducted by Maritz indicates that two-thirds of open-spend reward cards were redeemed for cash or disposable retail. Redemption data for the open-spend card included bail-bondsmen, court costs and tobacco.

Redemption Analysis – Cash Card



Redemption Analysis – Rewards Card



A related concern is that unfiltered cards and cash are quickly absorbed into overall spending. This enables employees to disassociate their reward and their behavior, weakening the impact of the rewards program. In short, unfiltered cards and cash are so impersonal that they fail to reflect the reward, the company, the behavior and the brand.

To most employees, unfiltered cards and cash are desirable because they represent maximum choice. It is possible, however, to offer choice to employees without taking on the potential compromises of these rewards. Filtered spending (spending at selected retailers) has proven very successful in providing expansive choice to employees while enabling companies to protect themselves from ill-aligned spending and retain many of the benefits of non-cash incentives.

Maritz research demonstrates that when there are some restrictions over spending, a larger percentage of cards are redeemed for memorable spending.⁵ This suggests that filtered spending options encourage employees to spend their rewards on more tangible – and thus more effectively motivational – items.

Risk #3: Legal and Regulatory Risk of Open Reward Cards

A final consideration for companies exploring a shift to cash or cash card rewards systems is the added legal and regulatory risk associated with these strategies. As companies loosen their control over rewards spending, they need to be aware of the host of new vulnerabilities to which they may be exposed, including personal property laws, money laundering regulations and even the USA Patriot Act.

For example, because point based reward cards are typically loaded for a fixed point value that equates to some dollar amount, they are not considered monetary instruments and carry less risk. In contrast, many other types of reward cards, such as single store reward cards, are “dollar loaded,” giving them a monetary value; for this reason, they can be subject to several state and local laws, including but not limited to the following:


- State Consumer Protection Laws
- State Abandoned Property Laws
- State Reward/Rebate Laws
- Federal Consumer Protection Laws
- State Money Transmitter Licensing Laws

Employing an unfiltered reward card carries the same risks as other dollar-loaded cards; however, the risk increases significantly when ATM access is added to the cards. Any card that allows ATM access must be a dollar-loaded card by requirements of the ATM network, and once people can easily convert the card to cash, several additional regulations apply. These additional laws include but are not limited to the following:

- Federal Money Transmitter Licensing Laws (Regulation E)
- Federal Consumer Protection Laws
- Federal Electronic Funds Transfer Laws
- State Wage and Hour Laws
- Federal and State Banking Laws (Bank Secrecy Act, OFAC, USA Patriot Act)

Exhibit 3:

The less restricted the reward vehicle is, the more it will increase risk.

Participant Choice 			
Travel and Reward Point Model	Flexible Reward Cards (Point Based)	Single Store Reward Cards (Dollar Based)	Open Reward Cards with/without ATM (Dollar Based)
<ul style="list-style-type: none"> • Generally Exempt from State and Federal Laws 	<ul style="list-style-type: none"> • Generally Exempt from State and Federal Laws 	<ul style="list-style-type: none"> • State Consumer Protection Laws • State Abandoned Property Laws • State Reward/Rebate Laws • Federal Consumer Protection Laws • State Money Transmitter Licensing Laws 	<ul style="list-style-type: none"> • State Consumer Protection Laws • State Abandoned Property Laws • State Reward/Rebate Laws • Federal Consumer Protection Laws • State Money Transmitter Licensing Laws • Federal Money Transmitter Licensing Laws (Regulation E): • Federal Consumer Protection Laws • Federal Electronic Funds Transfer Laws • State Wage and Hour Laws • Federal and State Banking Laws

Choosing a card option for a reward program is a decision that requires some level of education for the buyer. But by understanding the differences between card options, it becomes possible to balance a card choice with the associated legal risks. Only then can the buyer make the decision that is right for the organization.



Conclusion

The majority of employees and sales partners today believe they would like to receive incentives in the form of cash or cash cards. But companies should neither take this pressure at face value nor make the decision to shift to cash lightly.

Research indicates that employees work harder for tangible incentives and that these incentives have more potential to inspire focus and motivate powerful and lasting change. Further, tangible incentives cost less per improvement dollar, and they are easier to align with corporate values and protect from legal vulnerabilities.

Rewards programs exist for the purpose of retaining and motivating people, and the current evidence indicates that non-cash rewards are the most effective option for meeting these goals.

In considering a cash-based rewards system, responsible companies should carefully weigh current research and potential risk before making a change. It is possible to offer participants more choices while still retaining the valuable aspects of non-cash rewards. Think of it as purposeful choice.

A balanced approach to rewards – one which gives purposeful choice to employees while eliminating most risk for employers – is likely the best solution available today.

ENDNOTES:

¹ Maritz Poll, August 2004

² SalesforceXP "Right Answer Wrong Questions", 2004

³ People, Performance and Pay - O'Dell, McAdams and the American Productivity Center

⁴ Jeffrey, Scott A. "From Art to Science" Presentation, 2007

⁵ Maritz Incentive Summit, 2006