Motivating Employees with Informal Rewards

By Bob Nelson, Ph.D.

The value of informal rewards, that is, spontaneous, non-monetary forms of recognition, as employee motivators is increasing today for two reasons. First, traditional rewards such as compensation and promotions—although still important—are becoming less and less effective in motivating today's employees to achieve high performance. Second, informal rewards are effective and highly desired by today's employees.

Traditional Rewards are Losing Effectiveness

Use of traditional rewards is declining in U.S. business. Consider these facts:

- 81% of workers say they would not receive any reward for productivity increases.

- 60% of managers feel their compensation will not increase if their performance improves.

- 3% of base salary separates average from outstanding employees. (1)

Clearly our traditional system of rewards in U.S. business is in crisis if it fails to differentiate high performance on such a widespread basis. To make matters worse, rewards that are still in place are losing effectiveness. As Drucker points out:

> ❝Economic incentives are becoming rights rather than rewards. Merit raises are always introduced as rewards for exceptional performance. In no time at all they become a right. To deny a merit raise or to grant only a small one becomes punishment. The increasing demand for material rewards is rapidly destroying their usefulness as incentives and managerial tools.❞ (2)

Material rewards such as cash have in some cases even been found to have a demotivating effect. Explains Cecil Hill, corporate manager of improvement programs at Hughes Aircraft Company:

> ❝I found certain aspects of the cash awards approach would be counterproductive at Hughes Aircraft. For example, cash awards would reduce teamwork as employees concentrated

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primarily on individual cash gains. We also found that United Airlines had dropped its longtime cash awards system because of litigation problems. Other companies pointed out a negative boomerang effect whenever ideas were turned down. While many firms reported an ongoing problems with timely response, and others noted disagreements on determining dollar amounts and conflicts regarding what constitutes 'a part of normal job performance.' We have also found instances where 'pay' for certain types of intellectual performance tends to denigrate the performance, and remove it from the intellectual achievement category, which elicits pride and satisfaction, and reduces it to a more mundane 'pay-for-performance' concept. In short, cash awards seemed to have an overall demotivating effect.❞ (3)

Kanter summarizes the problem and need for better rewards well:

❝In this time of corporate hierarchy-shrinking and organizational layer-removal, companies   c a n n o t afford the old-fashioned system in which promotion was the primary means of recognizing performance. Greater accessibility to rewards—at all levels—is a necessity when employees stay in place longer; and recognition is an important part of this.❞ (4)

Informal Rewards are Effective

Although they are given little or no attention in management literature and practice, informal rewards are effective. In a recent survey of American workers, 63% of the respondents ranked "a pat on the back" as a meaningful incentive. (5) In another recent study of 65 potential incentives, four out of the top five incentives ranked by employees as most motivating were initiated by their manager, based upon performance, and required little or no money:

1. Manager personally congratulates employees who do a good job.

2. Manager writes personal notes for good performance.

3. Manager publicly recognizes employees for good performance.

4. Manager holds morale-building meetings to celebrate successes. (6)

The effectiveness of such rewards can be traced back to fundamental principles of positive reinforcement. Positive reinforcement is effective for several reasons. First, under conditions of positive reinforcement, the response produces a consequence that results in an increase in the frequency of the response. Second, the adverse emotional responses associated with punishment and extinction are apt to be reduced and, in fact, favorable emotions may be elicited. As Vroom's expectancy theory of motivation suggests, desired behavior in a work setting is increased if a person perceives a positive relationship between effort and performance. The behavior is further increased if there is a positive relationship between good performance and rewards, particularly if the rewards are valued. (7)

To illustrate the power of positive reinforcement on individual behavior, Daniel Boyle, vice president and treasurer of Diamond Fiber Products, Inc. describes the impact on an employee when she was presented a nylon and cotton jacket as an employee recognition reward called "The 100 Club" in his company:

❝You might think this is a trivial thing, but it means a lot to the people who earn a jacket. A teller at a local

bank told me once that a woman came in and proudly modeled her baby blue 100 Club jacket for bank customers and employees. She said, 'My employer gave me this for doing a good job. It's the first time in the 18 years I've been there they've recognized the things I do every day.'

❝During those years she had earned $230,000 in wages, which had paid for cars, a home mortgage, food, other essentials, vacations, college educations. In her mind, she had provided a service for her earnings. The money wasn't recognition for her work, but the 100 Club jacket was.❞ (8)

Think of the impact recognition would have had on this employee if it was used on a daily basis, instead of once every 18 years! As the example illustrates, many informal rewards cost relatively little or no money, so are very cost effective. Other examples of informal rewards used to acknowledge performance or build morale can be found at many successful companies:

● Tektronix, Inc., a manufacturer of oscilloscopes and other electronic instruments located in Beaverton, Ore., has the "You Done Good Award," notecards for managers and employees to document and send "thank you's" to others in the company.

● ARA Services in Philadelphia, which provides food and leisure services and textile rentals, organizes a day of appreciation for a worthy person. They announce the day in advance (e.g., Bob Jones Day) and the reason for the honor. The honoree enjoys all sorts of frills, such as computer banners and a free lunch.

● An executive at NCO Financial Systems in Blue Bell, Penn., buys a new suit for junior salespeople when they first reach their

sales goals. He also sometimes lends his Mercedes to salespeople for the weekends to show them how it feels to be a top salesperson at the company.

● PepsiCo headquarters in Purchase, New York, has a full-time concierge to help its 800 employees with personal errands such as booking restaurant tables and theater seats, arranging events for children, and household repairs.

When the positive reinforcement is given by colleagues or members of an informal work group, the results can be even more significant. For example, at the Office of Personnel Management in Washington, D.C. they have the Wingspread Award. This beautiful engraved plaque was first given to the division's "special performer" by the department head. Later that person passed the award to another person who, he believed, truly deserved it. The award came to take on great value and prestige because it came from one's peers. A recipient can keep it as long as he or she wants, or until he or she discovers another "special performer." When the award is to be passed on, a ceremony and lunch are held for the presentation.

Characteristics of Informal Rewards

What makes informal rewards effective? Informal rewards are most effective when some simple guidelines are followed. Informal rewards need to be:

Directly reinforcing of desired behavior. The reward needs to be clearly given in response to the desired behavior.

Immediate in their use. Informal rewards need to be given as soon as possible after the desired behavior occurs. As Nord explains:

❝Most rapid conditioning results when the desired response is 'reinforced' immediately. In other words, the desired response is followed

directly by some consequence. In simple terms, if the outcome is pleasing to the individual, the probability of his repeating the response is apt to be increased. The process of inducing such change in the response rate is called operant conditioning. In general, the frequency of a behavior is said to be a function of its consequences." (9)

Delivered personally. Part of the power of informal rewards derives from the way they are personally delivered. The fact that a manager is taking time—a limited, precious resource for all of us—to recognize or praise an employee underscores the importance of the activity to the employee. Time taken by a peer to recognize a colleague has an equal or greater effect in that it is both unexpected and not required of the colleague.

Valued by the individual. A final guideline for making informal rewards effective is to be sure they are valued and meaningful to the individuals who receive them. The rewards that are meaningful to a particular employee, however, depend on personal circumstances and tastes. For example, some employees are interested in increasing their autonomy, while others may be more interested in greater visibility, in improving their promotion possibilities, or in merely being thanked for doing a good job for the company. The best way to find out what employees value in terms of rewards and recognition is to ask them.

Guidelines For Implementing An Informal Reward System

An informal reward system is one or more organizational programs that encourages the use of informal rewards by management or among employees. The informal reward system is part of a broader informal organization that parallels the formal organization in every company. Informal organizations come about as a result of interpersonal interactions among people who come to establish personal relationships that are often independent of their organizational roles.

Individuals tend to be more strongly motivated by the potential to earn rewards than by the fear of punishment, which suggests that management control systems be reward-oriented. To do this well, here are some guidelines for implementing an informal reward system within an organization:

Link to organizational goals. To be effective, informal rewards need to support behavior that leads to the attainment of organization goals. Good management is that which leads to the desired behavior by organizational members. Management must see to it that the consequences of behavior are such as to increase the frequency of desired behavior and decrease the frequency of undesired behaviors.

Individuals respond to many kinds of rewards, tangible and intangible, on the job and off the job. Tying these rewards to controls is not simple. Consequently, a careful review of the reward system should be made along with any major redesign of the control system. Insofar as flexibility permits, the granting of rewards should be clearly and explicitly related to desired performance as reflected by the controls.

Define parameters and mechanics. Once the behavior to be reinforced is identified, specifics of a reward system need to be defined. The rules for awarding incentives must be clear and understood by all. This is a less obvious feature that can make an incentive system powerful and make a clear connection between the level of performance and the awarding of the incentive.

Obtain commitment and support. Once the mechanics of an informal reward system are clear, the program needs to be communi-

cated to those you want to use it. Usually this part of the program can be carried out in a group setting by presenting the program as a positive, fun activity that will benefit everyone as well as the company. Better yet is to elicit the help of employees in both planning and implementing the program.

Monitor effectiveness. Any program is only as good as its implementation. Informal reward systems must be monitored to see if they are being used and to see that the desired results are being obtained. Even the best informal reward program will be apt to lose its effectiveness over time because one of the defining characteristics of a reward is that it is special. Old programs often lose their specialness.

Link to formal rewards programs. Management must ensure that informal rewards are in line with the formal reward structure. This outcome can most easily be achieved by making informal rewards a subset of larger, more formal reward programs that are in place. For example, a company award (a formal reward) could be given to the employee who receives the greatest number of praising letters (an informal reward) from customers over the course of a year.

How Honeywell, Blanchard Training and American Express Do It

Honeywell, Blanchard Training and Development, and American Express epitomize three programs that fit the criteria just described for an informal reward system. At the Honeywell Technology Center of Honeywell, Inc., in Minneapolis, Minn., management implemented a recognition program called "The Winning Edge" for superior performance "above and beyond" his or her job. The program was open to any employee recommended by another employee for the award. A committee reviewed the recommendations, and accepted individuals were

awarded $100 cash and a certificate presented at a periodic ceremony. In addition, the names of all award winners were posted in the company's newsletter.

The program was considered a success in getting employees to pay extra attention in helping others with their needs, recognizing those that were committed to excellence, and increasing the general morale and excitement of the work environment. The program ran its course over about a year and was discontinued after it was felt that a majority of the employees had received the award. Although there were some program costs, the benefits of the program considerably exceeded the program costs.

At Blanchard Training and Development, Inc., a management training and consulting company located in San Diego, The Eagle Award was established to recognize "legendary service" to customers—one of the organization's strategic objectives. The program was initially announced and explained at a company-wide meeting. The program was open to any employee. Employees could submit the name of another employee who had gone out of his or her way to help satisfy a customer request. Typical examples included staying late to ship materials, helping a customer locate a lost order or resolve a billing problem, rearranging trainer schedules to deliver a last-minute training request by a customer, and so forth.

The employees' name was submitted with a brief description of the activity that was considered exceptional. The recommendations were reviewed by a committee, primarily to screen out items that were considered to be an expected part of someone's job. The Eagle Committee then surprised the winners with a visit and took a picture of the person holding "an eagle award"—one of several eagle trophies that rotated around the company. The photo was displayed on a lobby bul-

letin board along with a brief description of the activity being recognized. The winner got to keep the eagle trophy on his or her desk until it was needed for a new recipient—typically a week or so. At the end of the year, an "eagle-of-the-year" award was selected from a list of multiple eagle award winners. That person was presented an engraved clock at the company's annual celebration program.

One of several such efforts, this program was credited with making "legendary service" become an established part of the company's culture. Once more, it was implemented at virtually no cost. A few employees criticized the program, pointing out that it favored those individuals who dealt with customers on a daily basis, but that was the only brickbat. Management revised the program after about a year to focus more on internal customer service, a new priority for the company.

At Travel Related Services (TRS) of New York-based American Express, A Great Performers program was started to recognize and reward truly exceptional performance. Life-sized posters showing famous people with their greatest performances were displayed throughout the facilities for many weeks. Then the company began to picture American Express employees on posters, with a statement of a major accomplishment by each employee. Afterwards the employee could take the poster home.

Nominations were made by fellow employees, supervisors and customers. Award winners were eligible to become Grand Award winners, named by the worldwide governing committee. There was no limit on how many people could win, and in a recent year 38 employees captured the award. Prizes for Grand Award winners included an all-expense-paid trip for two to New York, $4,000 in American Express traveler's checks, a platinum "GP" logo pin and a framed certificate.

The Great Performers program helped to increase TRS's net income 500 percent in eleven years, or about an 18% annual compounded rate. The company's return on equity since the program began has been 28%.

Implications for the Future

There are at least three trends favoring the increasing use of informal reward systems today and in the future:

The trend toward fixed compensation. Employee compensation programs today are moving toward fixed compensation systems in which salaries are frozen and merit increases are paid only on a bonus basis. Such changes place pressure on organizations to find other ways to reinforce desired behavior. Informal rewards can help accommodate this need for new reinforcers.

The trend toward empowered employees. Empowered employees have increased responsibility and autonomy to act in the best interests of the company. Management's challenge is thus to build adaptability into the controls of the organization, thus providing employees with more flexibility and freedom to innovate while concurrently directing their activities towards the common purpose of the organization. The use of informal rewards by managers can help influence desired employee behaviors in effective, yet nondirective ways.

The trend toward increased uncertainty. U.S. business increasingly is experiencing constant change at a faster and faster rate. Because companies are operating in a dynamic, changing environment, management must use a more flexible, less formalized coordinating mechanism that serves to increase the use of informal controls and attempts to reduce reliance upon formal management controls. Informal systems work better during times of uncertainty. In such times, informal

systems can better help to stabilize operations than more formal control systems. As Maciariello and Kirby explain, "The association between the informal and formal changes with the degree of uncertainty. As stability and predictability increase, the use of formal systems increases. In times of major change, the informal system should be the dominant management system. The formal system, that is, the policies and procedures that applied to the past products and customers, many actually be looked upon by management as a potential barrier." (10)

Informal rewards even have increased potential for use with executive management. "In today's business environment, the critical motivational needs of executives and, therefore, the effectiveness of most incentive schemes are undermined. In a climate characterized by debt-laden companies, changing ownership, corporate downsizing, flattening organizational structures, and a $375 million outplacement industry, there is less certainty, loyalty, and stability. This environment undermines the needs for belonging, security, and control. Most executives have usually satisfied their basic financial needs. While stock options or additional bonus dollars play a role, personal incentives, such as recognition or achievement, become more important." (11)

The challenge is to design management controls that simultaneously encourage continuous improvement and autonomy within current operations and yet are capable of adaptation to major discontinuities in the environment. Informal reward systems can do just that.

Time for Informal Rewards

The time has come for managers to consider the intangible tools and approaches for obtaining results in an organization that only a few years ago might have been considered too qualitative, abstract, and undefined to be taken seriously. Foremost among these approaches is the use of informal rewards for motivating and encouraging individual performance that corresponds with the organization's goals.

Informal rewards are personal and flexible and thus can be more widely used. They can have greater impact in motivating more people and in helping to reinforce more formal organizational systems. With relatively little effort and expense, management can reap the benefits from an informal reward system that works in harmony with more formal reward programs to obtain maximum individual performance and productivity for the organization.

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