

The Effect of Performance Recognition on Employee Engagement

2013

Dr. Trent Kaufman
Tyson Chapman
Jacob Allen

Introduction

Think about the last time someone you work with told you, “Great job!” How did it make you feel? And what did it make you want to do? For most of us, sincere recognition of strong performance can be a powerful motivator to redouble our efforts and strive for even greater performance in the future, whether in sports, among our families, or at work. In fact, global research conducted by the Cicero Group shows that employees receiving strong performance recognition are much more likely to be highly engaged at their job and, as a result, are more likely to perform at their maximum output and develop innovative ways to improve their company. As high-performing employees are the lifeblood of any successful company, recognizing performance to improve engagement and performance is clearly worth investing in.

This white paper explores how performance recognition impacts employee engagement, innovation, and output, and how these correlate with company performance. Specifically, we find that well-recognized employees have more drive and determination, better work relationships, improved personal standing, and stronger connections to their company. Furthermore, **employees receiving strong recognition are much more likely to generate innovations and increased efficiency** at work. Impressively, employees report that **recognition is more effective at increasing their engagement, performance, and innovation than an additional bonus of five percent of their salary**. These impacts are not correlated with the rate of employees’ increases in salary, indicating that individual attributes and performance are not causing increases in both recognition and engagement. Furthermore, these results are consistent across all demographic groups and countries examined in the study.

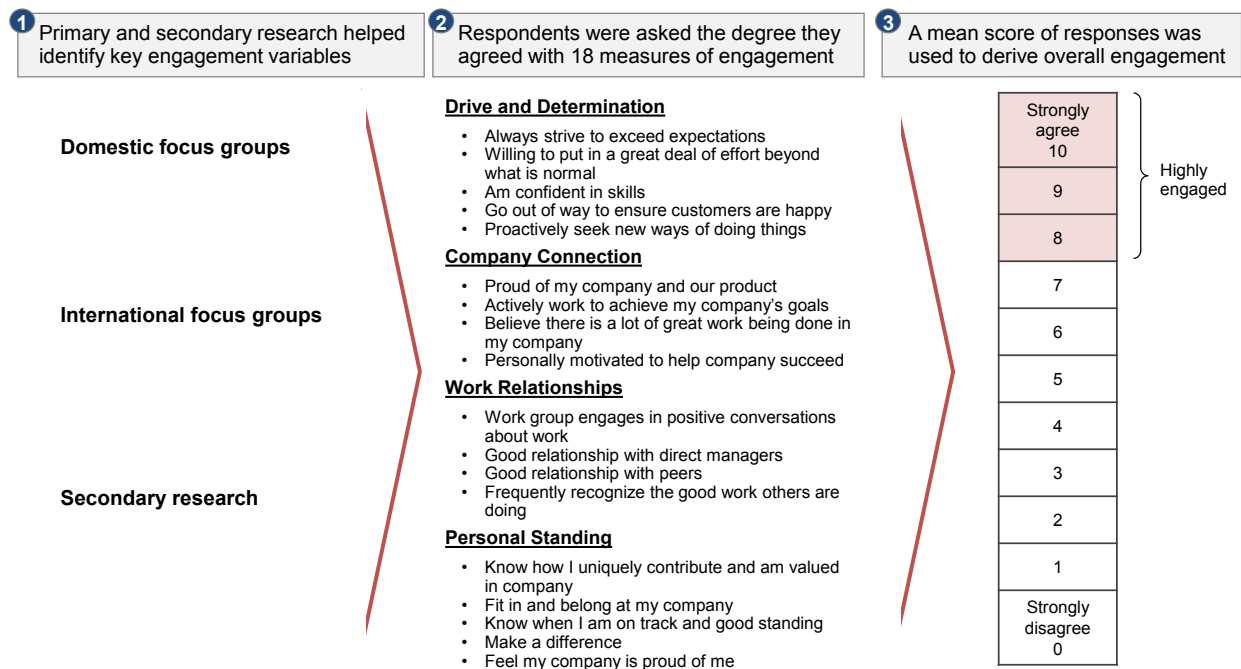
Our research also revealed intriguing insights about the best practices that companies employ to use performance recognition to achieve these results. After explaining the methodology we employed to conduct this study, the remainder of the paper provides the detailed results of the research and outlines these suggested best practices.

Research Methodology

To determine the return on investment of providing employees with strong performance recognition, we conducted our research in two phases, including both qualitative and quantitative research across an expansive breadth of demographic groups. In the first phase, our qualitative research included interviews and focus groups involving over 90 participants across varying geographies, cultures, and ages. We began with four focus groups in the United States of full-time employees in Salt Lake City, UT and Minneapolis, MN. We then conducted four additional international focus groups with full-time employees in Frankfurt, Germany and Mumbai, India. We also conducted in-depth interviews with human resource executives and business managers in order to incorporate the employer’s perspective throughout the research.

In addition, we conducted significant secondary research to build on existing studies regarding how to measure engagement and how engagement affects individual and company performance. There have been many studies published on employee engagement, each using its own assessment.¹ Informed by both these studies and our qualitative primary research, the approach used in this study is meant to provide a comprehensive measure of overall employee engagement.

Figure 1: Creation of the Engagement Index



We employed this comprehensive measure in the second phase of research, conducting a quantitative survey to a random sample of 2,415 employees in 10 countries and seven languages. This survey solicited respondents’ self-assessment of their own engagement at work, including 18 questions related to their drive and determination, relationships at work, personal standing within the company, and connection to the company. In our analysis we examined respondents’ self-ratings on individual topics/questions as well as an aggregated “engagement index.” Respondents whose average score is 8 or higher (57 percent) on a 0 to 10 scale are considered highly engaged.

¹ See, for example: Towers Perrin (2003): “Working Today: Understanding What Drives Employee Engagement”; Towers Perrin (2003): “Working Today: Understanding What Drives Employee Engagement”; and UK Government Report (2009): “Engaging for Success: Enhancing Performance through Employee Engagement”.

We also asked respondents about their involvement in driving innovation, the company’s growth trajectory, and their own and their team members’ productivity levels (or ‘output’ as a percentage of their total capacity).

Later in the survey we provided a “best practice” example of performance recognition and asked respondents to indicate how such an approach to recognition would affect their own engagement and performance. Specifically, survey respondents were asked to consider their experiences with two types of performance:

- **Ongoing Effort (OE)**—This is typically informal, casual, and more frequent recognition, typically delivered in the form of a written note, an email, or a sincere thank you.
- **Above and Beyond Performance (ABP)**—This type of recognition is typically more formal and tied to a more significant achievement. It is frequently accompanied by announcement to the team or company and/or an award item.

Respondents then assessed the extent to which they had received these types of recognition by their company, how and when they believed recognition should be provided, and how the effects of recognition compared with other benefits such as cash bonuses. Those who rated their experiences receiving either one of these types of recognition as an 8 or higher on a 0 to 10 scale (51 percent) were considered to have received “strong performance recognition.” A summary of samples used in the qualitative and quantitative studies can be found in Figure 2.

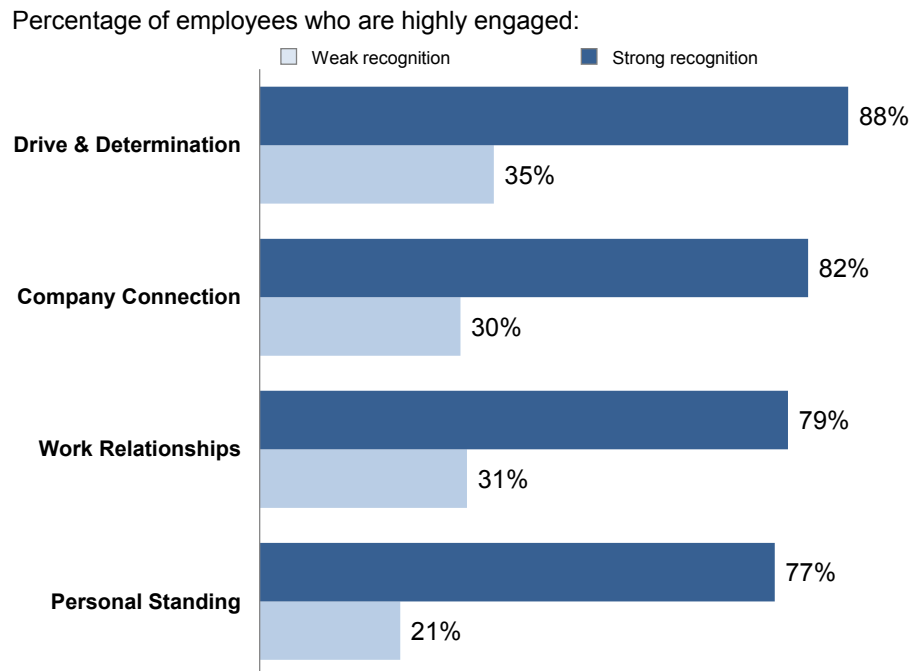
Figure 2: Research Samples

Qualitative Sample		Quantitative Sample	
Country	n	Country	n
United States	53	North America	704
Salt Lake City, UT	18	United States	512
Minneapolis, MN	35	Canada	192
Germany	18	Europe	622
India	19	England	203
		France	213
		Germany	206
		Latin America	475
		Mexico	237
		Brazil	238
		Asia	614
		Japan	154
		China	164
		Australia	145

Section 1 – Performance recognition drives employee engagement

In the last few years, a recurring focus of discussions of business performance is increasing employee engagement. While definitions of engagement abound, the crux of the idea is simple—when employees are more fulfilled in their work and committed to their colleagues and company, they (and the company) will perform better.² As a result, companies are investing heavily in a variety of ways to increase employee engagement. Our research demonstrates that one of the most effective ways to increase engagement is simply to recognize employees for their performance, in both formal and informal ways.

Figure 3: Recognition Across Four Components of Engagement



The challenge in demonstrating the relationship between recognition and engagement is that there is no standard definition of engagement. Each previous analysis considers different elements to measure everything from employee satisfaction to buy-in to corporate objectives.

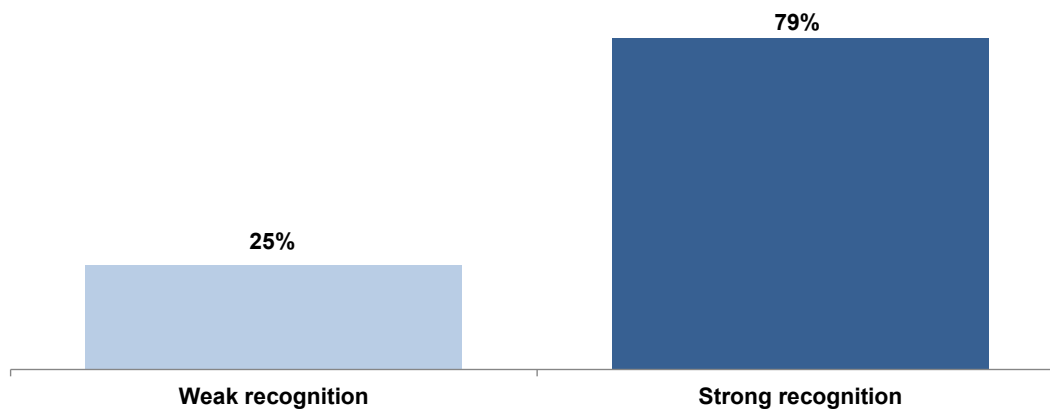
² According to Hewitt Associates, “in companies where 60 to 70 percent of employees were engaged, average total shareholder’s return (TSR) stood at 24.2 percent; in companies with only 49 to 60 percent of their employees engaged, TSR fell to 9.1 percent; companies with engagement below 25 percent suffered negative TSR” ([Employee Engagement at Double-Digit Growth Companies](#)). Towers Perrin concludes that a 5% increase in total employee engagement correlates to a .7% increase in operating margin ([Reconnecting with Employees: Quantifying the Value of Engaging Your Workforce](#)).

Consequently, we built on these approaches by developing a comprehensive engagement index. As noted previously, the index incorporates employees' self-assessment on 18 topics grouped into four categories—drive and determination, company connection, work relationships, and personal standing.

In each category, the percentage of those who rate themselves as “very high” (an 8-10 on a scale of 10) is consistently and dramatically higher among those who receive strong recognition versus those who do not. As a result, when employees' self-assessments across these four dimensions are combined, there is a stark difference in the engagement levels of those who receive strong recognition with those who do not (Figure 3). As Figure 4 illustrates, *more than twice as many employees are highly engaged among those who receive strong performance recognition compared to those who are not.*

Figure 4: Recognition and Engagement

Percentage of employees who are highly engaged



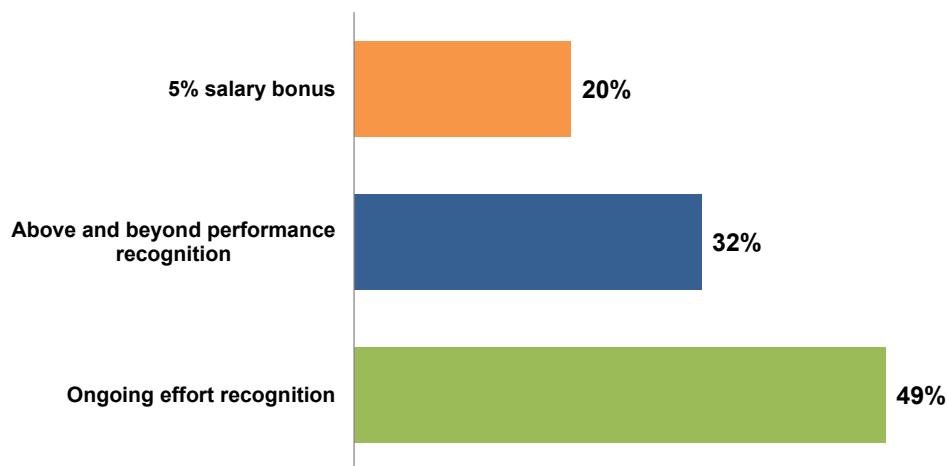
A good example of this is seen in the relationship between managers and their direct reports—a key driver of individual engagement and team and company performance. Among those who receive strong performance recognition, 86 percent say they have a strong relationship with their direct managers; only 46 percent of those receiving weak recognition say the same. In addition, 76 percent of managers who recognize their employees' performance more than once a month report having good relationships with their direct reports. In contrast, only 54 percent of managers who recognize performance less frequently say they have good relationships with their teams.³

³ Unfortunately, over a third of managers (39 percent) report that they infrequently recognize their team members' performance.

While it’s certainly possible that recognition is a result of good relationships (and good managers), the opposite is clearly also true—increased performance recognition appears to be one of the most effective ways to improve relationships between managers and employees. In fact, employees believe either type of recognition is much more important than a cash bonus (Figure 5).

Figure 5: Employee/Manager Relationships are Improved by Performance Recognition

Employees’ choice of which benefit would most improve their relationship with their direct manager



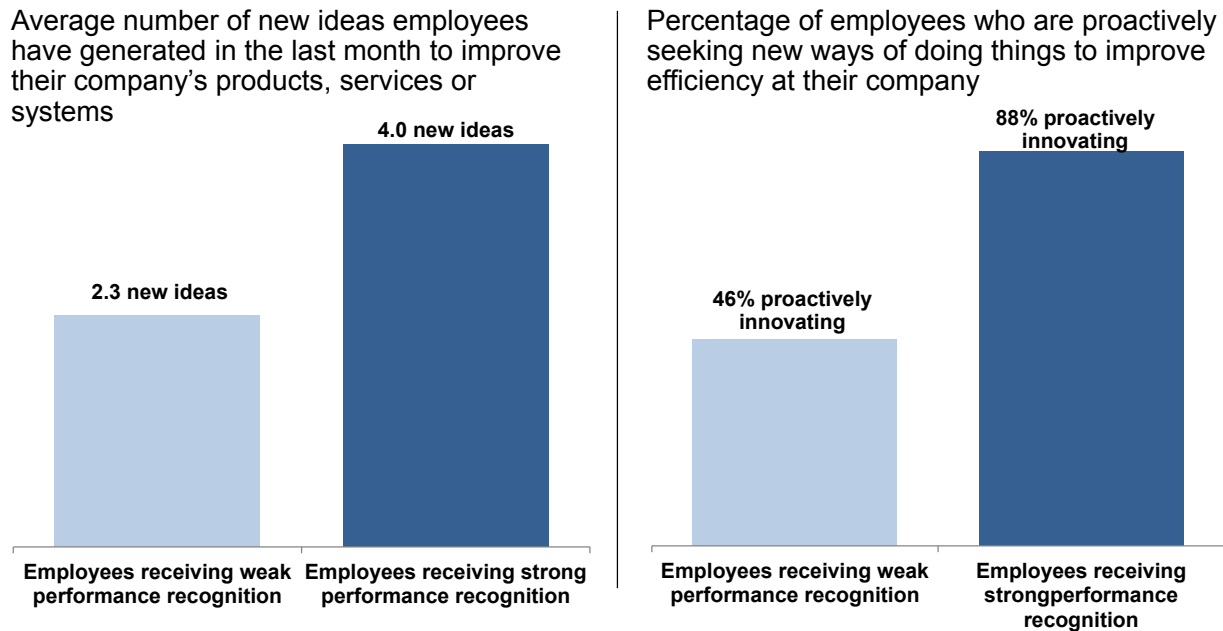
Section 2 – Performance recognition fuels employee innovation and output

So if employee engagement increases with strong performance recognition, how does that affect employee and company performance? Given the ample research showing that engagement increases individual and corporate productivity, perhaps it shouldn’t be surprising that by fostering significant improvements in employee engagement, strong performance recognition likewise leads to key drivers of performance such as output and innovation. Nonetheless, the findings are dramatic.

The first major effect that recognition has on performance is by driving innovation—a top priority for successful executives everywhere. The evidence for how recognition relates to innovation is both compelling and multifaceted. In the survey we asked employees about their level of innovation in multiple ways. First, we asked how many new ideas employees generated in the last month to improve their company’s products, services, or systems. The result? Employees receiving strong recognition generate *nearly twice as many innovative ideas* each month (see Figure 6). We further asked how much respondents agreed with the notion that they proactively seek new ways of doing things to improve efficiency at their company. Again, those receiving strong performance are significantly more likely to proactively work to improve their company’s efficiency. Furthermore, respondents indicated whether their company was continually

innovating and, once more, compared to those who receive weak recognition, nearly three times as many employees who receive strong performance recognition believe their company is continually innovating (22 percent vs. 65 percent).

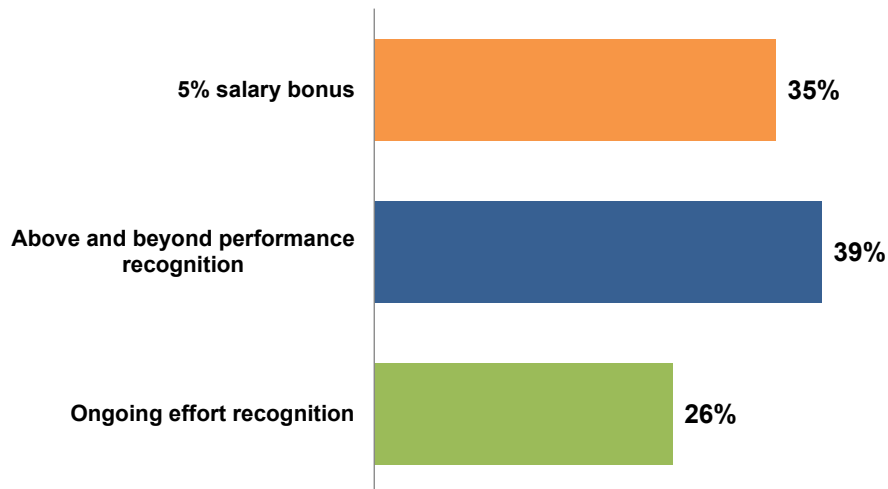
Figure 6: The Effect of Recognition on Individual Innovation



While there are clearly many factors that go into an individual's or a company's ability to innovate, we found that recognition can be a powerful driver of continual improvement. When asked whether recognition or a 5 percent bonus would be more effective to increase innovation levels, performance recognition again came out on top (see Figure 7).

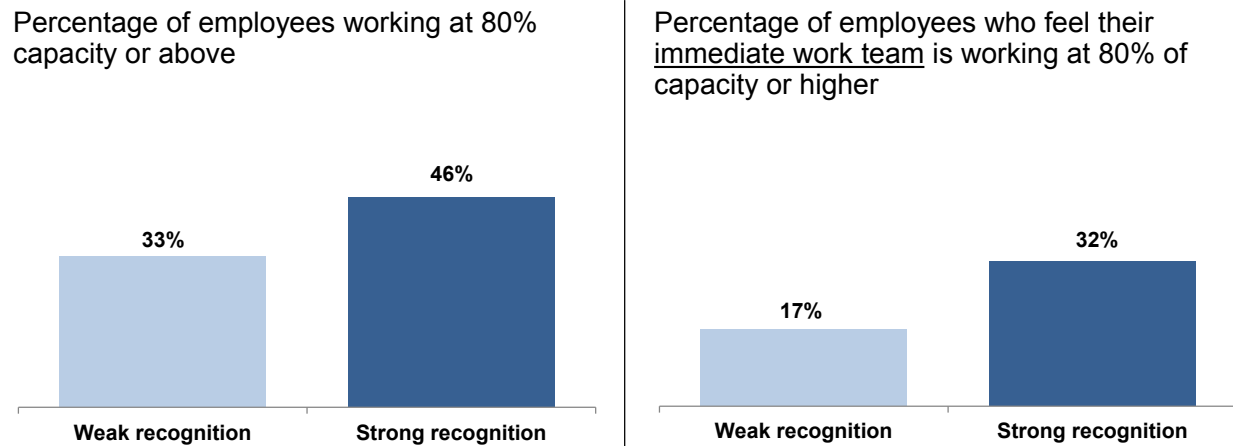
Figure 7: The Power of Recognition in Driving Innovation

Employees' choice of which benefit would most encourage them to proactively improve efficiency at their company



The second effect that strong performance recognition has on performance is through by increasing employees' willingness to work at their maximum capacity. Nearly half of employees who received strong recognition report working at 80 percent of their full capacity, while only 33 percent of those who receive weak recognition are working at similar levels (see Figure 8). Perhaps more striking is that this relationship doesn't just affect individuals, it radiates throughout the entire work team. When asked about their team's productivity, 32 percent of respondents receiving strong recognition said their teams work working at 80-100 percent capacity, compared with 17 percent of teams where employees received weak recognition.

Figure 8: Employee and Team Output

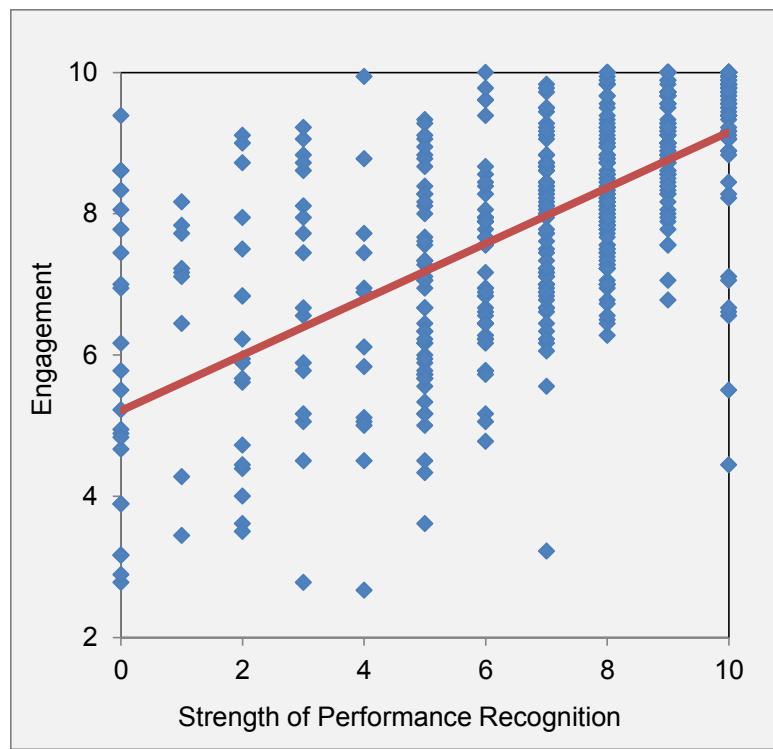


Section 3 – These connections are not just coincidental

The research reported throughout this white paper suggests a strong, compelling correlation between increases in performance recognition and a wide range of desirable outcomes, including employee engagement (as noted above) and individual and company output and innovation (as discussed later in the paper). In fact, the correlation coefficient between performance recognition and engagement, for example, is 0.64, meaning that 41% of the variation (the correlation coefficient squared) in employee engagement can be predicted by the strength of recognition an employee receives (see Figure 9).

Yet, as is often noted, “correlation is not causation.” So which factor causes the other? When employees are highly engaged are they more likely to receive strong recognition? Or does strong recognition cause employees to become more engaged (and therefore more productive and innovative)? While we clearly do not believe that strong recognition single-handedly improves employee engagement and performance, our analysis does suggest that there are many reasons to believe that strong performance recognition is a driver (and not just a corollary or consequence) of employee and company outcomes. Regardless, the question merits further discussion before further exploring the connection between the two.

Figure 9: Correlation between Performance Recognition and Engagement



In principle, the relationship between recognition and other outcomes could occur in a variety of ways. Recognition could be a primary or significant determinant of any or all of the employee or company attributes described, *causing* changes in employee (and company) behavior by increasing incentives to perform, engage, work productively with others, etc. Alternatively, the presence of strong recognition could be the result or *consequence* of strong employee performance. Those who are more motivated and skilled are likely to perform well, be engaged, and innovate, and recognition could increase in response to these attributes and behaviors. Finally, employees’ engagement, output, and innovation, as well as the recognition they receive could all be *correlated* with each other but caused by other factors such as broad corporate investments to improve company culture and employee satisfaction.

However, there are multiple reasons to believe that recognition plays a substantial role in improving employee behaviors. In both the focus groups and the international survey, employees and managers repeatedly described a number of compelling “causal mechanisms”—ways in which they’ve seen recognition increase engagement for themselves and their companies (see Table 1).

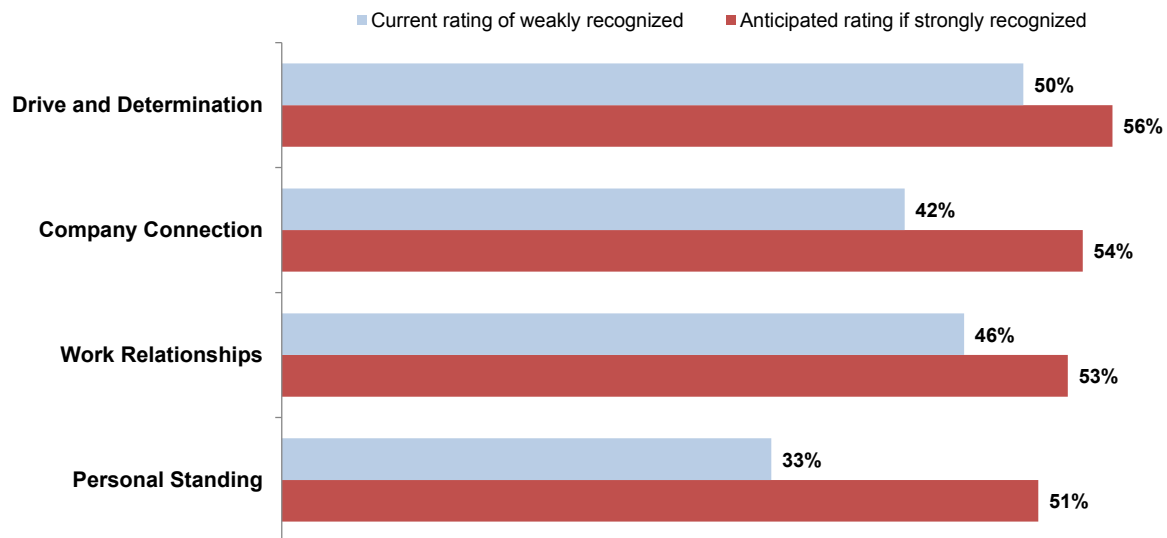
Table 1: Mechanisms Through Which Recognition Improves Engagement

Causal Mechanism: “Recognition...”	Illustrative Quotes
Motivates and Improves Performance	<ul style="list-style-type: none"> – <i>“All my hard work was recognized and worth something. And then I want to be recognized again and again.”</i> – <i>“Recognition makes me want to help out more. It makes me want to work harder and develop better ways of doing things.”</i> – <i>“There is a community aspect to recognition. People see others getting recognized and they want it too.”</i>
Increases job satisfaction and commitment to the company	<ul style="list-style-type: none"> – <i>Recognition makes me feel valued and improves my job satisfaction, which is contagious so it would improve productivity.”</i> – <i>“Recognition keeps talent. They will be more loyal to the company and want to stick around.”</i>
Identifies best practices and builds skills	<ul style="list-style-type: none"> – <i>It’s a learning tool. Employees do something right, they get an award. They are learning how to meet and exceed expectations.”</i> – <i>“Recognition keeps employees focused and gives them direction.”</i>
Improves morale and company culture	<ul style="list-style-type: none"> – <i>Recognition improves morale. It creates positive relationships and healthy emotional exchanges between coworkers.”</i> – <i>“Because I was being recognized, I noticed other peoples’ good performance that much more. It was contagious.”</i>
Generates pride in oneself and the company	<ul style="list-style-type: none"> – <i>Recognition makes me feel valued and recognized. Someone noticed what I did. I am not just a number.”</i> – <i>“Recognition gives me pride in my personal work and the company as a whole.”</i>

We further tested the connection in the quantitative research by using a “quasi-experimental” technique to directly assess the effect that strong recognition would have on respondents who say they receive weak recognition at work. After asking respondents about their engagement levels and their perception of the recognition they receive, we showed a description of a strong recognition scenario—one in which the fictitious employee received timely, specific recognition for both her ongoing effort and for above and beyond performance. Then we asked respondents to rate how engaged they would be if they were to receive such recognition. In every dimension, employees’ “anticipated engagement”—their expected engagement levels with strong recognition—is significantly higher than their current experience at work (see Figure 10).

Figure 10: The Effect of Improved Recognition on Employee Engagement

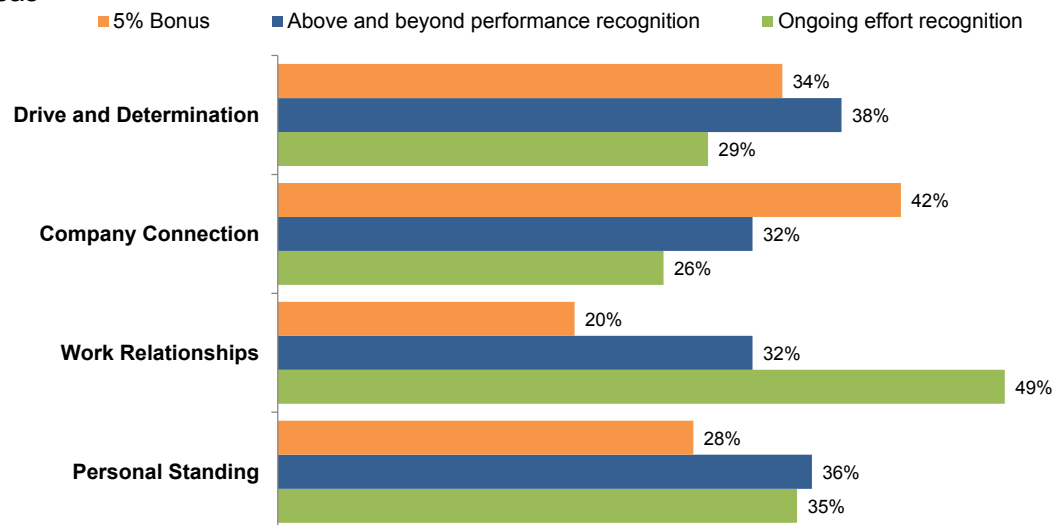
Percentage of poorly recognized employees who strongly agree with each statement after reading a description of strong employee performance recognition



A third and final substantiation that recognition improves engagement is provided in employees' assessment of the extent to which either recognition or a 5 percent bonus is more effective at improving their motivation, relationships, and behavior. Again, employees reported that strong recognition is at least as effective as monetary awards at improving their engagement in three of the four components of our engagement index (Figure 11).

Figure 11: Recognition vs. Bonuses in Improving Engagement

Employees' choice of which benefit would most improve their engagement in the following areas



And while this evidence is encouraging, it probably doesn't tell the whole story. In fact, it's worth asking whether one must cause the other, or if both can be true. We believe a virtuous cycle is at work—that recognition and engagement are mutually reinforcing—more of one leads to more of the other. Recognition makes all employees—both the unengaged and the highly engaged—feel motivated, appreciated and satisfied at work. This increases their commitment to succeed, which leads to more recognition. In turn, employees engage at even higher levels, resulting in improved performance for the individual and the entire company. Of course, weak performance recognition has the opposite effect—leading to discouragement and disenchantment, driving even the best performers away. Thus for every employee—no matter how engaged he or she is—receiving strong recognition has a significant ROI.

Section 4 – Best practices to improve engagement via performance recognition

Given that recognition plays such a significant role in increasing employee engagement, relationships at work, innovation, and company performance, identifying and investing in the best ways to improve the strength of performance recognition should clearly be a priority for companies and managers alike. While this is a topic for further study, our research suggested several key insights.

First, employees have a wide variety of expectations about the ideal frequency and nature of recognition. A fifth (21 percent) expected to be recognized once a week or more, while a third (35 percent) believe that once a quarter or less is the right frequency (see Figure 12).

Second, respondents likewise varied in explaining their positions. Many argued that frequent performance recognition increased motivation and morale, demonstrated care for employees, and improved performance and productivity. At the same time, respondents also cautioned against too frequent recognition, noting that doing so could come across as insincere or disingenuous and would require too much additional time and money.

Given the disparity of views, a manager might be forgiven for not knowing how often they should recognize their employees, much less for lacking the tools and support for implementing the ideal approach. In our view, the answer lies in thoughtfully combining frequent and informal recognition for “ongoing effort” with less frequent but more meaningful

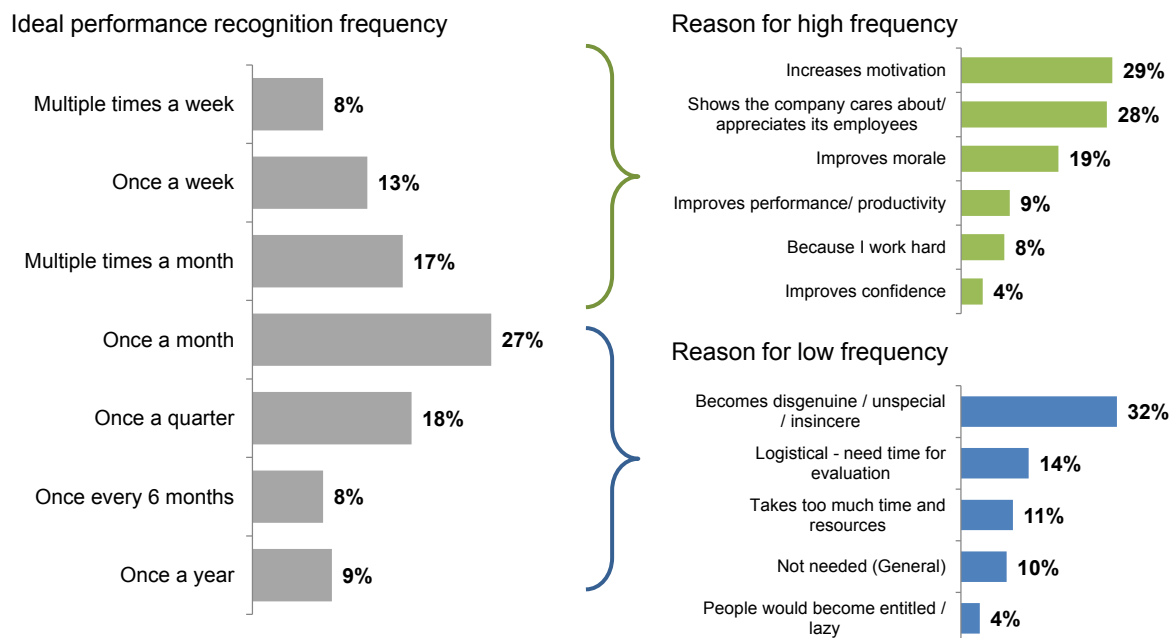
The Value of Recognition for Ongoing Effort

“Employees need frequent recognition to keep up good work and morale – to feel like they are doing a good job and it’s not going unnoticed.”

“We have high stress jobs, and hearing that we are doing a good job and to keep up the hard work helps keep my spirits up.”

recognition of “above and beyond performance.” Ongoing effort, especially when provided frequently and sincerely, can be used to recognize little wins and encourage employees to keep going, day in and day out. It helps employees know they are on the right track and to keep pushing ahead in the middle of a project. Employees rate recognition for ongoing effort as more effective than cash bonuses or other types of recognition for increasing confidence in skills and improving relationships with managers.

Figure 12: Recognition vs. Bonuses in Improving Engagement



On the other hand, recognizing employees less frequently but with more formality for above and beyond performance sets apart the most significant achievements in a unique and special way. It ensures that employees feel the recognition is sincere and tailored to the work they are individually doing. This type of recognition is most effective at encouraging employees to improve efficiency, ensuring they go out of their way to keep customers happy, and helping them feel they are making a difference for the company and their colleagues.

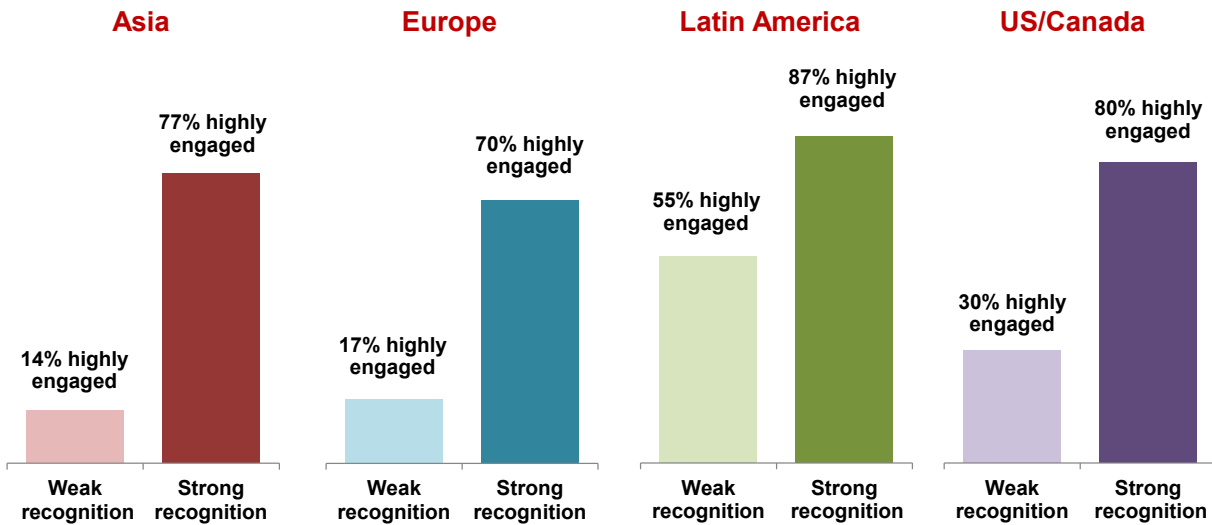
Section 5 – International Results

The results reported earlier in this study represent the aggregated findings from our qualitative and quantitative analysis around the world. While there are some variations from one international region to another, the basic results remain the same—performance recognition is highly related to employee engagement, which drives innovation, output and work relationships (see Figure 13). The difference in engagement between those who receive weak versus strong recognition is greatest in Asia. Even in Latin America, where a large majority of respondents

report high engagement, there are strong differences in engagement levels between those who receive strong recognition and those who do not.

Figure 13: International Results—Recognition and Engagement

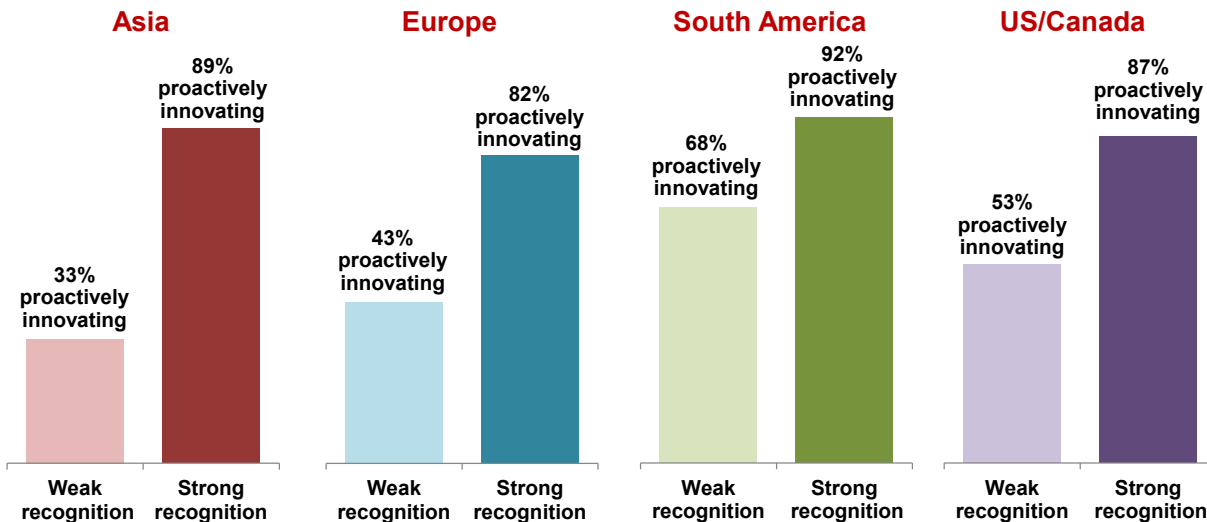
Percentage of employees who are highly engaged



The connection between performance recognition and employee innovation and output is also persistent around the world. Again, however, the level of recognition an employee receives is a stronger predictor of innovation in Asia and Europe than elsewhere (see Figure 14).

Figure 14: International Results—Recognition and Innovation

Percentage of employees proactively seeking to innovate and improve company efficiency



Conclusion: The Effect of Performance Recognition on Employee Engagement

Through global, primary qualitative and quantitative research, we conclude that performance recognition is a strong driver of employee engagement—a key objective of high-performing companies around the world. As a result, performance recognition improves relationships between managers and employees, increases levels of individual and company-wide innovation, and encourages employees to maximize their output and productivity. It is also clear that performance recognition—whether for ongoing effort or above and beyond performance—can be a more powerful motivator than cash awards or other methods of engaging employees.

Our research also indicates that both types of recognition are important and should be used in deliberate and complementary ways. When provided frequently and informally, recognition for ongoing effort is highly effective at increasing employees’ confidence in their skills and standing within the company, as well as improving their relationships with managers. Recognition for above and beyond performance should be provided less frequently and more formally in order for it to ‘mean more’ in recipients’ eyes. But when provided appropriately, this type of recognition goes a long way toward encouraging employees to increase innovation and customer service.

In sum, improving corporate recognition programs will likely require less up-front investment than increasing salaries or bonuses but will yield much greater returns for employee

engagement. The key, however, is actually making the right investments intentionally and systematically.

*If you have questions or would like to comment on this research study, please contact **Dr. Trent Kaufman**, to the principal investigator of this research project. He can be reached at the Cicero Group (www.cicerogroup.com; **801-456-6700**).*