



**MORGAN, BROWN  
& JOY, LLP**

**STRATEGIES FOR  
DEVELOPING A SUCCESSFUL  
EMPLOYEE RECOGNITION PROGRAM**

by

**Mark M. Whitney and Jennifer M. Bombard  
Morgan, Brown & Joy, LLP  
200 State Street  
Boston, MA 02109**

**[www.morganbrown.com](http://www.morganbrown.com)**

# EMPLOYEE RECOGNITION PROGRAMS

By: *Mark M. Whitney* ([mwhitney@morganbrown.com](mailto:mwhitney@morganbrown.com)) and  
*Jennifer M. Bombard* ([jbombard@morganbrown.com](mailto:jbombard@morganbrown.com))

## Introduction: What is an Employee Recognition Program?

All employees like to be recognized and appreciated. An employee recognition program can be the key to motivating employees and infusing a healthy dose of creativity into an otherwise “stale” corporate culture.

Traditionally, recognition programs were viewed as a “nice thing” for companies to do. Today, companies are thinking about recognition more strategically and aligning their employee recognition programs with their business goals. Large employers have added “employee recognition” sections to their websites to inform prospective employees about incentive and reward programs. Some recruiting firms encourage applicants to ask employers at job interviews about whether they have a formal recognition program and how they encourage or reward employees. In addition, the number of recognition strategy/services firms, employee recognition program vendors, and corporate rewards/corporate loyalty sponsors has dramatically increased in the past twenty years. Bob Nelson, President of Nelson Motivation Inc. and best-selling author of *1001 Ways to Reward Employees*, estimates that the U.S. incentive industry is a \$27 billion-dollar enterprise.

Employee recognition programs, when developed and administered appropriately, can improve communication between employees and management, as well as increase employee loyalty by giving employees more of a stake in their company’s success.

## Benefits of an Employee Recognition Program for Company Managers and Executives:

1. Quicker identification of low performers.
2. Increased customer loyalty and retention; lower turnover.  
Employees who feel appreciated and respected will be more productive and motivated, and are likely to remain longer with the company.
3. Higher employee productivity overall.
4. Increased retention of mid to high performers.
5. Overall increased employee morale. Employees often go above and beyond what is expected of them in most cases. Showing your appreciation creates an environment of respect and gives employees a sense of ownership and belonging in their place of work.

## Fundamentals of an Employee Recognition Program

Prior to developing the nuances of an employee recognition program, employers are advised to consider the following facts and figures:

- The total number of your employees;
- The total amount of money you wish to allocate for recognition gifts and incentive awards;
- Funding: Your per employee budget for each employee recognition gift or award. For comparison purposes, recognition awards provider Hinda Incentives calculated that large organizations allot approximately 1% of base pay for non-sales staff and 4%-7% of base pay for sales staff, which equals an average cost of \$100-\$400 per employee annually. Smaller companies recommend first researching what similarly-sized companies in their industry are spending.

After engaging in some raw calculations, employers may move towards the more creative aspects of the process – actually designing the incentive program.

Employers are encouraged to consider the following preliminary inquiries

when developing an employee recognition program:

## **I. Program objectives**

It is imperative that the employer has a clear idea of the goals it hopes to achieve with its employee recognition program. Specifically, what do employees need to do? What employee actions will the program reward? What specific employee achievements should be highlighted and recognized? What outcomes are you looking for? And what policies and practices will drive your recognition program?

For example, one objective articulated by many employers is to improve safety performance. With this goal in mind, employees may be recognized by receiving rewards or incentives based on achieving a specific desired set of circumstances, such as:

1. A set number of days without recordable accidents;
2. A set number of months without lost-time injuries;
3. Significant decreases in workers' compensation claims (over time, i.e., one month or one year).

Any of the results mentioned above can be achieved in connection with a successful employee recognition program. Moreover, meeting each desired result will yield a different impact on a company's bottom line.

Employers should also draft a statement of program objectives to serve as a guide when making decisions about the program. This statement may be referenced when determining the amount of resources to allocate to the program.

Employers may choose to hire an external recognition consultant or awards supplier/vendor.

## **II. Program administration**

Employee recognition programs are typically administered by one person in the company, i.e., a "program administrator", who may be a manager or member of the HR department. The program administrator is entrusted with the administrative and technical duties of running the program, although this person usually has other responsibilities unrelated to the recognition program. Large organizations, such as Royal Bank of Canada, have created positions entitled, "Manager, Recognition Programs." Mid-size companies may have recognition departments which are separate from human resources, and some mid-sized and smaller

employers have established recognition committees that include a wide range of employee representatives from each department.

### **III. Program communication**

A successful employee recognition program is one that allows employees to participate easily. Employees are more likely to participate in an employee recognition program if they are made aware of the program's existence at the outset. To promote awareness of an employee recognition program among its employees, an employer should advertise its program details in conspicuous workplace locations, such as in the cafeteria and on company bulletin boards. Employers may also wish to include an explanation of the program's rules and procedures in the orientation packets distributed to new employees and in the employee handbook.

### **IV. Program eligibility and participation**

Along with the program's rules and procedures, employers should widely disseminate to its employees information about how to participate in the recognition program. Regarding eligibility requirements, most employers permit all employee groups, including managers, to participate in the employee recognition program, although top-level executives and department heads and members of the evaluation committee may be excluded.

#### **Program dates**

Employers need to establish concrete beginning and end dates for each program "cycle", even though a recognition program may be ongoing. For example, many companies boast a "Salesperson of the Year" or "Employee of the Month" award. Employees' achievements are evaluated pursuant to an established period of time (i.e., each month to determine employee of the month), but the incentive program itself continues throughout the year (another employee is recognized the following month).

#### **Program awards and publicity**

There is a wide array of methods at an employer's disposal to use when "rewarding" employees in connection with the recognition program. For example, employers may offer a cash reward, a gift certificate to a local department store or restaurant, or use a point system to assign value to an employee's successful participation in the program, tailoring the employee's reward accordingly (See Section II below for a more in-depth

analysis of different types of awards). However, it is important to note that cash awards are treated as bonuses subject to taxation by the Internal Revenue Service. To offset an employee's tax liability associated with a cash reward, some employers have included an additional amount of money as part of the award.

It is essential that awards are consistently and timely distributed to successful employees to maintain enthusiasm and high levels of participation in the recognition program.

Publicity is essential to giving employees the recognition they deserve, and as such, should be considered an integral part of a company's recognition program. Employers may utilize the following advertising venues for publicizing award recipients:

1. Company website
  - a. External website – internet (visible to the public)
  - b. Internal website – intranet (visible to other employees)
2. Company newsletter
3. Company's Annual Report
4. Staff Meetings
5. Day of Appreciation
6. Photo display on Company bulletin boards

### **Program training for managers**

Some employers emphasize the importance of their recognition program to managers by providing training up front and building recognition directly into the supervisor training curricula.

### **Program evaluation**

Many employers have formed a committee to evaluate the success of the employee recognition program. To provide a diversity of viewpoints, it is recommended that the committee include both managerial and non-managerial employees who will track and measure the program's operation. Members should also include a cross-section of the organization and include employees from the various departments and/or divisions (i.e., accounting, mailroom, marketing, engineering, etc.). Employee feedback is essential, yet it is also critical that senior management level executives support the program because a recognition culture starts at the top with the CEO and trickles down to the rank and file

employee.

Measuring the success of a recognition program is not easy. One measure of success used by employers is total participation levels. Companies also ask their employees about recognition as part of an overall employee satisfaction or engagement survey. Managers may be able to provide additional feedback based on their observations. Another option involves retaining an independent company specializing in measurement processes and program effectiveness.

### **Tax Treatment of Awards**

Tax implications abound for individuals receiving cash awards and cash equivalents (including gift certificates). Tax issues vary by state and by type of award and are subject to complex federal regulations.

Under the Tax Reform Act of 1986, an employer may deduct the cost of achievement awards given to the same employee up to \$400 in any year. If the incentive rewards are awarded as part of one or more of the employer's written, established plans or programs, the \$400 deduction limitation is increased to \$1,600 per employee. This means that if an employer has a formal safety or years of service incentive program, it can award up to \$1,600 for an individual employee, but no more than \$400 per employee for all employees.

The IRS defines an "employee achievement award" as an item of "tangible personal property" transferred by an employer to an employee for safety, achievement or length of service. Such an award must be presented as part of a meaningful presentation and cannot be disguised as compensation to the employee.

To be tax exempt, an employee incentive reward cannot be in the form of cash, charge, credit/debit card or a gift certificate. Other items not comprising tangible personal property (and which are not tax exempt) include travel, vacations, meals, lodging, tickets to theater or sporting events and stock certificates.

Length of service awards can be excluded from an employee's income only if it is "tangible personal property" and is received by the employee after his or her first five years of service.

Gifts bearing the company logo that are under \$4 in value are tax free. Anything with a value of \$4 or more is taxable, whether or not it contains a logo.

Awards for employee achievement or in recognition of employee productivity were eliminated from the tax regulations under the 1986 Tax Reform Act.

## **Types of Employee Recognition Programs – What Behaviors will be Rewarded?**

### ***Types of Behaviors Meriting Recognition:***

1. Recognition for Performance in any specialized area:  
Recognizing individual high sales, cost reductions, safety, or increased profits
2. Recognition for Length of Service:  
Recognizing employee contributions made over time (not merely an employee's tenure with the company)
3. Recognition for Superior Customer Service
4. Recognition for Perfect Attendance
5. Recognition for High Quality Work Product
6. Recognition for Improvement

### ***How often should a desired behavior be awarded?***

Weekly?

Monthly (Employee of the Month)?

Yearly?

### ***How should the desired behavior be awarded?***

Based on recommendations from employees' supervisors?

Should employees be nominated by their peers? (peer recognition)

## Matching Incentive Awards to Program Type - Pros and Cons

Michael LeBoeuf, a management consultant, lists ten basic categories of employee incentives. They include the following:

1. Cash
2. Recognition
3. Time off work
4. Stock Ownership
5. Special Assignments
6. Advancement
7. Increased autonomy
8. Training and Education
9. Parties and other fun activities
10. Prizes

The most popular and widely utilized incentives are outlined below:

### ***Cash Rewards (Including Debit and Credit Cards)***

Pros:

1. Cash rewards are easy to administer and most people will not complain if you give them free cash.
2. Easy to distribute.
3. Can be used to purchase anything.
4. No shelf life – it comes and goes (sometimes more quickly than one would expect).

Cons:

1. To serve as an incentive, a significant amount of cash may be necessary (one large cash prize as opposed to many smaller cash prizes).
2. Must be given separately – not as part of an employee's paycheck or regular compensation ("bonus" or "commissions")
3. May have tax consequences.
4. No "trophy" value – cannot display this in your office for other employees to admire.

### ***Gift Cards (For a specific retailer)***

Pros:

1. Employees can treat themselves to merchandise in a store (or likewise in a restaurant) they may not otherwise frequent.
2. Easy to distribute to employees.

Cons:

1. Gift cards often go unredeemed because they are forgotten or discarded.
2. May be treated like cash for tax purposes.
3. Many gift cards (that are redeemable anywhere) are used by employees to purchase household necessities, as opposed to gifts or other non-essentials for themselves.
4. They are not always effective performance enhancers because people may not connect emotionally with cards, as opposed to travel or other merchandise
5. Recipients cannot and are not likely to show off gift cards to colleagues.
6. Gift cards can expire (sometimes in as little as six months).
7. Gift cards may have hidden fees.

***Other Merchandise or Tangible Awards (Movie passes, electronics)***

Pros

1. Employees may not have otherwise purchased this item and so they feel as though they earned this award through hard work (obviously this logic applies to awards such as electronics, and not company t-shirts or coffee mugs).
2. Offer long lasting value and serves as a reminder to the employee of a job well done.
3. Offer budget flexibility for employers (items may be anywhere from \$10 to \$1,000)
4. Catalog award programs or point-based incentives can offer flexibility for both employers and employees in administration and choice of award.

Cons

1. "Too many mugs"; employees no longer desire pens, watches, clocks, paperweights or t-shirts bearing the company logo
2. Smaller gifts may not be effective motivators (again, employees will not be motivated to work hard if all they can expect to gain is a company t-shirt or mug)

***Praise***

Pros

1. Cheap and easy.
2. Employees appreciate praise.
3. Of all the recognition incentive listed, simple praise is most likely to boost an employee's performance and self-esteem.
4. High visibility; serves as a message to other employees that the recipient of such praise performed well and that such hard work is noticed and acknowledged.

Cons

1. None

## Successful Implementation Strategies

Incentives only work if they are meaningful and if the goals set are realistic, attainable, and measurable. Hybrid models (encompassing a broad base of distinct incentive programs) are usually effective and appeal to different groups of employees. Most employees desire a choice of rewards as part of their employer's recognition efforts. Frequent communication, management support, consistency, fairness and a balanced approach with more varied award choices are just some of the essential ingredients of a healthy recognition program.

### ***Best Practices: Real World Examples***

**AFLAC** (Columbus, GA): Recognizes all employees' birthdays with a card and a gift of their choice from a vendor. Holds an employee appreciation week featuring random drawings for prizes and family-friendly events (including movie night). Division managers are encouraged to reward employees performing above and beyond the call of duty with stock options, cash or time off.

**Blanchard Training and Development** (Escondido, CA): Employees receive two movie passes on their birthday.

**Merle Norman Cosmetics** (Los Angeles, CA): The company president keeps track of everyone's birthday and when possible, makes a point of seeking out people to wish them well on that day. The company chef bakes a birthday cake for the employee.

**Southwest Airlines** (Dallas, TX): Administers a Halloween costume contest, a Thanksgiving poem contest and a design contest for the December newsletter.

**Celestial Seasonings** (Boulder, CO): Every employee receives a \$25 check on his or her birthday, a \$50 check at Thanksgiving and a \$100 check at Christmas.

**Hewlett-Packard** (Palo Alto, CA): "Golden Banana Award," originated when a company engineer burst into his manager's office to announce he had found the solution to a problem the group had been struggling with for many weeks. The manager looked around his desk for an item to acknowledge the accomplishment and ended up handing the employee a banana from his lunch, saying "Well done!" and "Congratulations!" The Golden Banana Award became one of the most prestigious honors bestowed on an inventive employee.

### **Communication Briefings/Newstrack Communication Services**

(Blackwood, NJ): Each employee receives 20 coupons to distribute. When an employee observes a co-worker doing something extraordinary, he or she simply fills out a coupon, including the reason for the recognition, and presents it to the co-worker. Recipients can save and redeem them for special awards, including:

- 1 coupon = certificate for a free car wash
- 5 coupons = \$25 gift certificate for dinner at a restaurant
- 10 coupons = \$50 Macy's gift certificate
- 15 coupons = one-night stay for two in Atlantic City
- 20 coupons = one-year membership to the Four Seasons Health Spa.

**Walt Disney World** (Orlando, FL): "Spirit of Fred" award, named after an employee called Fred. When Fred first transferred from an hourly to a salaried position, five people taught him the values necessary for success at Disney, inspiring the award in which the name "Fred" became an acronym for "friendly, resourceful, enthusiastic, and dependable." Each award consists of a certificate mounted on a plaque. Multiple recipients of the Spirit of Fred award are eligible to receive the "Lifetime Fred Award," a bronze statuette of Mickey Mouse.

**AT& T Universal Card Services** (Jacksonville, FL): "World of Thanks" award, a pad of colored papers shaped like a globe with "Thank you" written all over it in different languages. Any employee in the company can write a message of thanks to someone else and send it to that person. In four years, the company employees had used more than 130,000 notes.

**Cyanamind Canada** (Canada): "Key to Innovation Campaign," which encourages workers to contribute ideas and become "frequent innovators." For productivity-enhancing ideas, employees receive anywhere from 40 to 1,000 points, redeemable for awards featured in a catalog, including glassware, radios, televisions and weekend trips for two.

**Today's Temporary** (Dallas, TX): Gives temporary employees who have worked during the previous six months a card with a scratch-off panel concealing a named prize. Prizes include a diamond watch, \$50 or \$100 in cash, calculators, and six months of free long-distance telephone calls.

**T. Rowe Price** (Baltimore, MD): "Spotlight on Excellence" program, focusing on employees who, in the long run, perform work that embodies principles and values the company wants to emphasize. Co-workers and managers are encouraged to nominate employees whose work demonstrates teamwork, service, leadership, integrity or initiative.

**Mercury Interactive Corp.** (Sunnyvale, CA): Incentive program's purpose is to motivate field staff who maintain and troubleshoot clients' computer systems by traveling outside the office. Field staff can access the company's online awards program to report holes they encounter in existing client systems. Employees receive points for leads identifying weaknesses and even more points for leads that generate business.

**Boeing** (Puget Sound, WA): "Pride@Boeing" program. Includes an instant awards program accessible to employees and managers. Fifty employee volunteers serve as recognition focal points ("focals") and provide their colleagues with prizes, valued at \$10 or less, to use as spot awards (examples include movie tickets, personal fans, calculators, or a voucher for a 10-minute massage available onsite with a service with whom Boeing has contracted). Focals provide these prizes to any manager or co-worker who wants to recognize a colleague. Administers a book program, which awards books covering leisure-time interests such as cooking, travel and running to employees sharing these interests.

### ***21<sup>st</sup> Century Issues: Recognition Programs and Remote Employees***

- See Mercury Interactive example above
- *Develop an online tool with eye-catching e-cards and e-certificates that can easily be customized and sent to offsite employees.*
- *Consider unusual ways to communicate praise, such as sending an offsite employee a box with a helium balloon inside attached to a "thank you" note. The extra creativity put into the effort will make a lasting impression.*
- *To be certain customers are getting consistent, high-quality customer service from both onsite and offsite employees, measure customer satisfaction. Results can be used to support coaching and development activities to address specific needs and reward desirable behavior.*
- *Invite remote employees to key onsite staff and group meetings. These meetings will provide an opportunity to recognize offsite employees' contributions in-person and in front of their peers, as well as evaluate any areas for improvement.*
- *One size does not fit all when it comes to learning, especially with offsite employees. While web-based learning provides an efficient solution, it is important to take advantage of onsite time when*

*possible. Onsite, classroom sessions demonstrate management's commitment and provide employees undivided, uninterrupted attention.*

Source: "Study Shows Offsite Workers Feel Less Connected With Employers," Maritz Incentives, accessible at <http://www.maritz.com/newsreleases/maritz-study-shows.html>

## **Additional Resources\***

National Association for Employee Recognition  
[www.recognition.org](http://www.recognition.org)

Nelson Motivation Inc.  
[www.nelsonmotivation.com](http://www.nelsonmotivation.com)

The Bill Sims Company, Inc.  
[www.billsims.com](http://www.billsims.com)

The Light Group  
[www.incentivesmotivate.com](http://www.incentivesmotivate.com)  
[www.promolight.com](http://www.promolight.com)  
[www.cybercentives.net](http://www.cybercentives.net)

Real Recognition  
[www.realrecognition.com](http://www.realrecognition.com)

Maritz Incentives  
[www.maritz.com](http://www.maritz.com)

---

\* Please note that we have listed these sources as possible places to seek additional information about employee recognition programs. Morgan, Brown & Joy does not specifically endorse these sources or recommend the services they provide.

## About the Authors:

**Mark M. Whitney** is a partner at Morgan, Brown & Joy, in Boston, MA, and practices in the field of employment law, specializing in management representation. He represents employers before administrative agencies and the courts in disputes arising under the myriad State and Federal laws that regulate the employment relationship. An important part of Mark's practice is helping clients prevent such disputes by providing consulting services on a variety of employment law issues, such as risk management practices, personnel policies, and statutory compliance. He also conducts seminars and employee/management training on a variety of employment-related topics.

A significant part of Mark's practice involves helping companies protect their trade secrets, customer goodwill and other proprietary information, which includes evaluation of critical company policies and practices and drafting of employee agreements (noncompete, nonsolicitation, nondisclosure, intellectual property, separation and other employment agreements). Mark regularly represents companies in court seeking to prevent the misappropriation of trade secrets or other methods of unfair competition; he also assists companies who find themselves embroiled in noncompete litigation with their new hire's former employer. Mark edits the Massachusetts chapter of the leading national treatise on noncompetition law. [*Covenants Not to Compete: A State By State Survey* (BNA 2005)]

Mark has been recognized as a "Rising Star" in the field of employment litigation by a poll of Massachusetts Lawyers conducted by Law and Politics Magazine. This is the second time that this poll has been conducted in Massachusetts, and the second year in a row that Mark was selected. Mark's "Rising Star" selection is featured in the May 2006 issue of Boston Magazine.

Before joining Morgan, Brown & Joy, Mark gained large-firm practice experience in New York City, New Hampshire and Boston. In addition to law firm experience, Mark worked as in-house counsel for a New England-based insurance company where he oversaw its Employment Practices Liability Insurance program.

Mark is a graduate of the University of Rochester (B.A. 1987) and Brooklyn Law School (J.D. 1993), where he was an editorial member of the Brooklyn Law Review and member of the Moot Court Honor Society. He is admitted to practice before the Bars of: the States of New York, Connecticut, New Hampshire, and the Commonwealth of Massachusetts; the United States District Courts for the Southern and Eastern Districts of New York, the District of New Hampshire, and the District of Massachusetts; the United States Courts of Appeals for the First, Second and Third Circuits; and the United States Court of Federal Claims.

**Jennifer M. Bombard** is an associate at Morgan, Brown & Joy, having joined the firm in 2006. She represents private and public sector employers in state and federal courts and before administrative agencies in matters involving employment discrimination and retaliation, wrongful discharge, separation and severance agreements, non-competition and trade secret litigation, employee investigations and discipline, wage and hour issues, unfair labor practice charges, union avoidance, collective bargaining, and labor arbitrations. She also advises managers on litigation avoidance techniques involving compliance with Federal labor and employment laws, including the Fair Labor Standards Act, the Family and Medical Leave Act, Title VII, the National Labor Relations Act, the Americans with Disabilities Act, the Age Discrimination in Employment Act and related State statutes. Prior to joining Morgan, Brown & Joy, Jennifer practiced law at Robinson & Cole in Hartford, Connecticut.

Jennifer graduated from Colgate University in 2000 (summa cum laude, Phi Beta Kappa), and earned her law degree from Boston College Law School in 2004, where she was recognized among her peers as the “Best Third-Year Moot Court Oralist” for her oral advocacy skills. She received the “Best Oralist” award for her participation in the J. Braxton Craven National Moot Court Competition and helped lead her team to victory as the national champions. While in law school, Jennifer also coauthored an appellate brief with the Middlesex District Attorney’s office and successfully argued before the Massachusetts Appeals Court.

Jennifer is a member of the state bars of Massachusetts, Connecticut and the District of Columbia, and is also admitted before the Federal District Court in Connecticut. She is a member of the Labor and Employment Sections of the American Bar Association, the Massachusetts Bar Association, the Boston Bar Association, the Connecticut Bar Association, and the Women’s Bar Association of Massachusetts.