

# **TECHNICAL ASSISTANCE – GUIDE TO INCENTIVE AND RECOGNITION PROGRAMS**

Prepared by the Division of Human Resources in the Department of Personnel & Administration. Revised August 29, 2008.

## **GENERAL**

It is the intent of the state personnel director to encourage the use of incentive and recognition programs as an effective part of performance management and total compensation. Departments and higher education institutions (departments) must create and implement incentive and recognition plans before awards are given. In addition, plans must be developed with the input of employees and managers, and communicated prior to use and on an ongoing basis. Records on any aspect of incentive or recognition awards must be provided to the state personnel director (director) or Division of Human Resources (DHR) upon request.

## **PLAN REVIEW**

As of August 1, 2008, Director's Rule 3-21 requires departments to submit incentive and recognition plans, newly created or modified after August 1, for review by the state personnel director prior to implementation, to ensure the plan is consistent with guidance, rule or law. Plans in place prior to August 1, 2008, are not required to be sent for review to the director, unless specifically requested.

When a plan must be sent to the director for review, the review must be completed within 90 days, but will typically be completed sooner. Plan reviews must be sent to DHR's Compensation Unit. If conflicts with guidance, rule, or law are found during the review, DHR will work with the department to correct any conflict. In situations where conflicts have been found and the department and DHR are working together to resolve the issue, it is possible the review may extend beyond 90 days. Failure to provide the plan to DHR or to correct any issues or conflicts identified by DHR in a timely manner may result in revocation of any current plan, in addition to delegated authority for that department to grant incentives and recognition to any employee.

## **INCENTIVE vs. RECOGNITION PROGRAMS**

An incentive program includes non-base cash awards for achieving criteria or goals that are defined at the beginning of the performance cycle and linked to individual, team, or organizational performance, such as attainment of results or realization of outcomes, or exhibiting organizational core values. Incentives reward employees that find unique and creative ways to achieve these goals that bring the organization closer to its objectives. All employees are eligible to receive incentives, but they must be re-earned for each performance cycle. Incentives can effectively link pay and performance, either with the individual or team, and have measurable results that can be tracked and monitored. Incentive award recipients are generally nominated by a supervisor and selected by management. Selecting a few performance indicators and determining what is important to measure and reward are key in ensuring an incentive program's success.

A recognition program includes non-base cash or non-cash rewards that have a lower cash value and occur in a shorter time frame than incentives. Recognition awards acknowledge employee

contributions through specific noteworthy accomplishments or behaviors that are aligned with organizational goals and values, but are not typically tied to pre-defined performance objectives like incentive awards. It is important that recognition awards be given to recognize specific efforts and activities targeted by the organization as important, e.g., application of new competencies, safety, achievement, reliability, excellent customer service, years of successful performance, positive attitude, or teamwork. Recognition awards can be given immediately (spot awards) or periodically (employee of the month) and can be individual or team-oriented. Recognition awards are flexible and can stop or start within a given timeframe, can be a one-time only occurrence, and used to incite change in return for the reward. Recipients of recognition awards are often selected by a management team or employee group or council, based on the recommendation of a manager or supervisor.

Both incentive and recognition programs are viewed as complementary to the performance management and pay systems and should be designed considering all elements of total compensation, as well as any realistic budget restrictions. Incentive and recognition awards are not to be used as a substitute for other compensation policies, such as annual salary adjustments, promotions, and position allocations; however, they can be used to augment achievement pay as additional means to reward performance.

Successful incentive or recognition programs should boost employee morale and create a work environment of motivation; one where creative ideas and service improvements are realized, recognized, and rewarded appropriately. Successful programs will also enhance the workplace culture and employee engagement. Programs must be designed to create a best-fit for business and employee needs. Numerous studies show that employees want to be acknowledged for a job well done and programs may range from a simple “thank you” to complex calculations with cash awards.

### **Cash and Non-cash Awards**

All incentive and recognition awards, both cash and non-cash, are not to be added to an employee’s base pay. The keys are to be creative and know what individual employees value most, and to be flexible when considering award options. Cash awards are not necessarily the most effective method of recognizing employees’ efforts. Research has shown that non-cash awards may be more rewarding than cash awards to employees.

Cash awards are simply the payment of a specific dollar amount. For example, giving \$50 (cash or check) to the employee of the month constitutes a cash award. Non-cash awards are non-salary awards (not cash or a check) and vary to certain degrees. Even though an award may be considered non-cash, it still may have a direct cost and identifiable associated value. Administrative leave is a common non-cash award. Administrative leave has direct cost and budget impact, as the employee’s salary for those specific leave hours must be paid. Listed below are a few examples of non-cash awards that may have a budget impact or direct cost associated.

- Administrative leave
- State merchandise - T-shirts, hats, jackets, etc., that have the state or department logo.

- Tickets - professional sport functions, college or university functions, State Fair, local theater, lottery, Colorado Historical Society, etc.
- Gift certificates or cards
- Travel/Parking – Eco Pass or parking pass.
- Office items - new desk or other furniture, personalized note pads, embossed pen/pencil sets, plants, lamps, etc.

If a department is operating under tight budget restraints, it may be difficult to give the type of non-cash awards that have a direct cost and budget impact. There are additional non-cash options that may *not* have direct cost or budget impact. Listed below are a few examples of non-cash awards that may not have a direct cost associated.

- Training opportunities – Allow an employee to cross-train in a field of personal interest.
- Meetings held at an off-site location – To reward group performance, encourage an off-site team or unit meeting at a park or other location.
- Free coffee or water club – If your office has a coffee club where participants pay a fee to enjoy the service, allow them to participate free of charge for a month.
- Flextime or Flexplace – Allow a high-performing individual the option to work away from the office for a day or two or the option to work a compressed work week. Additional information is available on the work-life Web site at [www.colorado.gov/dpa/dhr](http://www.colorado.gov/dpa/dhr).
- Office options – If purchasing new furniture is not feasible, give a furniture or office upgrade (some desks are more desirable than others – allow an employee to switch desks). Some employees may place more value in an office with a window or one more privately located.
- Conference participation – If there is a conference where someone from the team or unit must attend, but participation of a specific person is not mandatory, award an employee the option of attending the conference for the unit.
- Donated merchandise or gift certificates.
- Acknowledgement – handwritten note of thanks, certificate, recognize and thank the employee at a staff meeting or in a newsletter or broadcast email.

It is important to consider tax implications for both cash and non-cash awards. For example, all cash awards are subject to federal taxation. In addition, any non-cash award with a total value over \$100 or awards with an accumulated value over \$100 *may* be subject to taxation. Departments need to take all of these aspects into consideration when delivering or deciding on a specific award to employees and contact their payroll office or controller to ensure that State Fiscal Rules and IRS guidelines are followed.

## **INCENTIVE PROGRAMS**

### **Eligibility**

Examples of system-wide incentives are non-base achievement pay and sales commissions; however, departments are also encouraged to develop incentive programs for all employees or for specific groups of employees. Certain types of programs may lend themselves to all

employees, while other incentives, such as a performance incentive award, may be given to a specific employee, team or group, depending on the goals and objectives to be obtained.

### **Types of Incentive Programs**

The following are some examples of common types of incentive programs. Departments may adapt the programs to best fit their business operations, work environments, and budget.

- *Performance Incentive Programs* – The purpose is to reward outstanding employee or team results and outcomes that further organizational objectives and exemplify core values. These programs are more structured and earning of rewards is measured by pre-defined performance measures or criteria. This type of program typically has categories of rewards, multiple reward items for each category, and will have budget impact. Samples of statewide incentives are non-base achievement pay or sales incentives. Administration of this type of award program can be complex depending on the different categories and types of awards.

Within state government, physical production of a product may not be as prevalent because departments are more service oriented. Quality of services related to customer satisfaction, safety, efficiency in work processes and program improvements can all be areas where employees' performance and outcomes may be rewarded. As quantifiable measures for these areas are not easy to define, departments may rely on multiple factors to evaluate the performance of employees. As a result, the measures will be more flexible in terms of adapting to changing business conditions and diversity of tasks.

- *Suggestion and Savings Award Programs* - The purpose of a suggestion and savings award program is to encourage employees to develop, submit, and carry out ideas and innovations that improve the efficiency of state operations and service quality, reduce spending, save costs, or generate additional revenue by sharing in actual savings realized from implementation of the idea or innovation. A suggestion and savings award program provides departments flexibility in awarding employees for **saving state costs** by means of cash or non-cash awards. Savings are calculated as the difference between *anticipated* expenditures prior to implementation and *actual* expenditures following implementation for a full 12-month period and are not the result of normal progressive business evolution, obvious solutions to mandated budget cuts, cost avoidance or revenue enhancement, nor do they have adverse cost impact on other departments. A key to developing a successful suggestion and savings award program is making a commitment to reward employees who make special efforts and go beyond departmental goals to achieve significant and documented savings. For example, creating department-level savings by implementing “greening of state government” innovations.

Employees are ineligible for suggestion and savings incentive awards if they are wholly responsible for control and operation of a division (or equivalent); the primary assignment includes responsibility for identifying efficiencies and cost reductions; the position has statewide program or budget authority; or specified in 24-50-802(1)(b) C.R.S.

A suggestion award program encourages employees to develop and submit ideas that improve the efficiency of operations or services, or reduce operating expenditures. When ideas result in identifiable savings or additional revenue, the program allows employees to share such monetary benefits. The complete award amount shall be no more than 10 percent of the first year's savings, not to exceed a total of \$1,000 per employee.

## **RECOGNITION PROGRAMS**

### **Eligibility**

Departments may develop recognition programs for all employees or for specific groups of employees. Recognition programs reinforce organizational objectives and values by rewarding outstanding employee contribution. Certain types of programs such as service recognition programs may lend themselves to all employees, while other programs, such as safety rewards, may be limited to specific employee groups or jobs. It is important that eligibility be specified in the department's recognition program.

Employee recognition can be a powerful management tool for engaging employees. Numerous studies show that employees want to be acknowledged for a job well done. Research has also shown that one of the most motivating forms of recognition is a manager taking the time to personally thank an employee. Recognition can range from the informal as part of sound management, such as a simple "thank you", to formal programs with cash recognition awards. Formal programs are structured with defined criteria, established award amounts, and set presentation dates, e.g., employee of the month award. Informal recognition is less structured and ongoing. Employee recognition programs can acknowledge a variety of exemplary behavior, e.g., safety, superior achievement on a project, reliability, creativity, excellent customer service, years of service, positive attitude, high skill level, and teamwork. Knowledge of employees' individual preferences for the type of award and some degree of creativity are keys to designing an effective recognition program.

### **Types of Recognition Programs**

The following are some examples of common types of recognition programs. Departments may adapt the programs to best fit their business operations, work environments, and budgetary processes.

- *Recognition Programs* – These programs should encourage managers to spontaneously recognize employees for desired work behaviors, accomplishments and outcomes, and may be cash or non-cash. For this type of program to be most effective, the recognition should come directly after the achievement has occurred and be directly attributed to the event or behavior. Recognition that comes too late or is too broad may lose its significance. Non-cash programs are very common and involve symbolic awards, such as certificates, plaques, trophies, certificates, pins, desk sets, logo items, reserved parking, etc. It is common to allow everyone in an organization to nominate colleagues for these types of awards because they may be just as powerful coming from co-workers as supervisors, and have minimal or no administrative cost. Managers should present this

type of symbolic award on the spot, which may provide meaning to the employee beyond any possible cash value. These awards allow managers to publicly acknowledge employees' accomplishments and provide the opportunity for employees to exhibit their awards publicly.

An example of a more structured program is one where points are earned for meeting certain measured criteria. Earned points can be redeemed for cash or non-cash awards. This type of program typically has categories of rewards, multiple reward items for each category of recognition, and tends to have moderate to substantial budget impact. Administration of this type of award program can be complex depending on the different categories and types of awards.

- *Employee of the Month/Quarter/Year Recognition Award* – This type of recognition is structured with defined selection criteria, pre-determined recognition award amounts, and set presentation dates.
- *Service Recognition Programs* – These programs recognize the length of service an employee has with the organization. Pins, plaques, certificates, or outings with management are all examples of non-cash rewards to celebrate time of service. The administration of this type of program is relatively easy as it relies on existing and readily available information.

## **KEYS TO SUCCESSFUL IMPLEMENTATION**

Director's rule 3-21, 24-50 part 8, C.R.S., and Executive Order D0007 96 on *Incentives and Rewards for Citizen Satisfaction* contain several requirements addressed throughout this document. In addition, a department's plan should address the following.

- *Link recognized and rewarded behaviors and outcomes to your organization's mission and goals.* Awards will acknowledge how well the organization achieves its mission and goals. Awards given to employees should produce a positive effect on the work unit or department and be proportional to the cost and time for administration. Managers who see a direct link to the program outcomes and values are more likely to sustain interest in recognizing those employees exhibiting outstanding behaviors.
- *Tailor the program to fit your business needs and goals.* The design of an incentive or recognition program needs to be flexible to allow for adaptability to department operations and needs. For example, in the case of a suggestion and savings award program, flexibility applies to the development of any applicable formula for measuring realized savings, the parameters for determining types and amounts of awards, availability of funds, and payout schedules. Only if departments have flexibility can they empower employees to take ownership in improving work productivity and quality.
- *Program policy.* An effective program policy should convey the commitment within the department (from both management and employees). A policy needs to identify the objectives and results the department is seeking to achieve. As diversified as each

program may be, a policy should clearly communicate to employees and managers how, why, and what types of suggestions, behaviors, or accomplishments will be rewarded.

- *Develop specific criteria.* Select key measurements, parameters, goals, and award criteria prior to implementation and document them in writing. Include specific, straightforward goals and establish timeframes in which goals must be completed. Keep the number of benchmarks within reason and keep it fun. Create an easily understood measurement system that is viewed as fair and attainable.
- *Monetary recommendations.* Small awards up to \$25 can be given on the spot for exemplary service; awards above \$100 are to be set in standardized increments with a maximum of \$1,000 and should be subject to more stringent criteria and approval than those applied for lesser awards.
- *Target the audience.* Determine what types of jobs are eligible, identify the employees who are eligible, and what motivates them. Determine whether team or individual recognition is appropriate, what is valued (cash vs. non-cash), how employees' perceive recognition, what should be accomplished, and what behaviors, core competencies, or performance areas need improvement in support of desired outcomes. Target outcomes that have an impact on the bottom line, are measurable, and choose one or two of the most pressing needs.
- *Determine the awards.* This is one of the most important steps. Rewards that mean the most to employees will have the best results. Choose award types and methods that will stimulate employees to participate and maximize engagement to have an impact on the organization. Use employees' input to set up multiple award preferences, types and methods (cash and non-cash) so employees have the opportunity to receive awards that are most desirable to them. In addition, as a program becomes more structured and quantifiable, parameters around the awards may be necessary, e.g., both in amount and number of awards per employee per time frame.
- *Identify a budget.* Include costs for operation, publications, awards, training, administration, ceremonies, supplies, etc. Impact on the department's budget can range from minimal to substantial, depending on the type of reward and the program. It is important that departments consider budgetary impact while designing a program. It is recommended that budget staff be included in the design group.
- *Buy-in.* To achieve commitment from both management and employees, buy-in from all levels is critical. Management needs to appreciate the power of incentive and recognition programs and use them wisely; employees need to understand clearly what they can control to improve their department's operations and outcomes. Equally important is support from the budgetary process and availability of any necessary funds. All of these entities need to work together to make the program successful.
- *Training.* Training will help ensure that the program is used appropriately and consistently. Because a suggestion and savings award program is formal and structured,

training for all participants is a must. All employees, supervisors, and managers must understand how the program will work and have the knowledge and skill base to work within the program and make it beneficial to all.

- *Communicate the program's existence.* Communication is required and a key to any successful program. Communicating incentive and recognition program information is an on-going process. Communication with employees must begin before the program is implemented, during start-up and implementation, continuing throughout the time the program is active, and when and if it ends. Because suggestion and savings award programs may not be familiar, it is critical that organizations understand what can be done within state operations and has been done in business outside of state government. Be sure to communicate the program criteria and awards. Communication with real examples will help all parties to realize the potential of the program.
- *Present the awards.* Make sure the presentation of an award matches the significance of the contribution and the awards are meaningful to recipients. Awards too large or too small may create negative reactions to the program, even among the employees receiving them.
- *Evaluate the program.* Evaluation ensures effective validation of the program's goals and objectives. It is recommended that evaluation take place at least annually. A survey is an effective tool for getting feedback and should include employees, supervisors, managers, and focus groups. Surveys should determine organizational outcomes, employee and management reaction, understanding of the program, impact on behavior, whether or not expectations have been met, what was liked or disliked, and how the program could improve. Employees' feedback on program communications, award criteria and amounts, program structure, and results are critical for improving the program. Suggestion and savings awards need to be documented to further justify the existence of the program.

Being able to demonstrate why and how employees are rewarded will communicate to employees the commitment from management to rewarding efficient work behaviors and actions. Flexibility and spontaneity in the presentation of awards to employees may also achieve the highest effectiveness for the program.

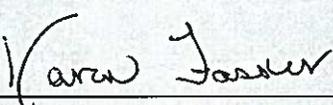
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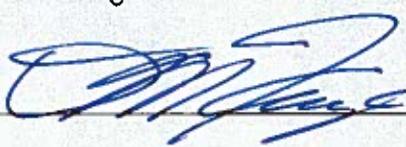
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