

Optimizing Human Capital Assets in Tough Times

This white paper was developed by the Performance Improvement Council, a strategic industry group within the Incentive Marketing Association.

It's a different economy all together, isn't it? Even with optimistic pronouncements that we have hit the bottom and a rebound is on the way, the last year-and-a-half has taught us that no one really knows what's lurking around the corner. Opportunity? Chaos? Maybe a little bit of both.

Today's executives are wrestling with unparalleled uncertainty. Chances are that revenues are down, expenses are up. And margins? Well, forget about those.

Expenses have become conspicuous, to say the least. Reduce this, trim that, every move raises an eyebrow. Name one company that isn't re-examining every business input, debating every cost or looking at every practice for new ways to trim costs while also hoping to exploit competitive advantage. In our hyper-challenging marketplace, companies **must** do more with less.

No matter what the business model, value propositions have become increasingly knowledge-based and service driven. Smart executives know that, rather than any new technology or product offering, it is the ability and attitudes of their people that's more likely to set a firm apart from its rivals. People spur innovation, cultivate customer loyalty, drive productivity and ignite economic growth.

How to Sustain Corporate Culture through People

Considered as a cost of business, people costs can be the biggest drag on the bottom line. But, as a resource, they can also have the biggest positive impact. Members of the C-suite that

get this (and most do) are demanding *more for less* from anyone who impacts this precious resource. Progressive business leaders are continuously searching for effective ways to optimize their human resource investments.

While recruitment, hiring, training and benefits expenditures are all part of the aggregate people investment, compensation is the biggest and most visible component. But as companies tighten their belts, freezing, sometimes slashing expenditures, many managers feel their options are limited. With a shrinking compensation pool to draw from, many are left wondering:

- How can the organization motivate employees to reach goals that are critical to the organization's success? How can we retain our best people?
- How do we develop leaders for tomorrow?
- How do we share best practices and build on our cultural attributes?
- How can we possibly *do more for less*?

For those in that predicament (and who isn't?), the question worth asking is this: *is cash all there is to work with?*

There is no debate that salary is the primary contract between employer and employee. And while it may be the primary reason we go to work each day, is it really what gets us up in the morning? Does it motivate us to do more? When we think of our salary, do we feel engaged, energized and passionate about our work? Does it make us think of our job as more than just a place we go or something we do?

The Harvard Business Review doesn't think

so. In "Employee Motivation: A Power New Model," (August 2008) the authors argue that people are guided by four basic emotional needs and that traditional forms of compensation fall short of satisfying us.

How so? Cash plans do a very good job of exploiting a person's drive to acquire. Employees are motivated by their yearning for tangible things: homes, cars, etc. The material girl was right. We want STUFF.

People are also motivated by our desire to defend what is ours. Yes, we want to keep our homes and what's in the driveway (by making our mortgage payments and car loans). But we are also motivated to defend, or improve, our economic standing in society. We want to keep everything we have acquired over time: STUFF AND STATUS.

But the Harvard Business Review paper also contends we need to learn and bond with others to feel fulfilled. Human beings are motivated by a need to comprehend the world and to figure out where we belong in it. Don't worry; we are not talking existential quests for the meaning of life here. But most of us do have a hunger to understand how things work, to demystify what surrounds us, to make a meaningful contribution along the way and find a way to fit in.

It's that last need, our desire to bond, that's the most interesting. It's a survival reflex really. Most animals travel in herds or packs because there is safety in belonging. People look for assurance socially and professionally. We seek connections with customers, managers and coworkers for the same reasons animals do it in the wild. People want to contribute to the success of a group and feel part of that success. It elevates our role in the group and makes us more secure.

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The reward in forming relationships is primal. In short, we need to feel needed. Most of us get frustrated, maybe a little uneasy, when we can't. Good sales people and customer-facing employees in particular have these traits at higher levels than say an accountant. But all employees...all people...take pleasure in knowing they are important parts of the groups they value.

For companies looking to do more with less, this is where the strategic use of recognition comes in.

The way to expand the impact of your compensation effort, without increasing the costs, may lie in expanding the use of recognition. Dr. James Oakley from Purdue University examined the impact of compensation and the role it plays in fostering and sustaining culture in his study "The Road to An Engaged Workforce", (www.performanceforum.org). In Oakley's opinion, all forms of compensation must be leveraged to drive the culture that's right for your business. He feels non-cash as a compensation lever is actually under-utilized in all business models.

Effective use of recognition, using non-cash rewards that are distinct from ongoing compensation, is a powerful tool for sustaining culture, driving innovation and rewarding the right behaviors across the corporation.

Driving Innovation through People

While cutting costs—and people—is a necessary response to the current economic challenges, many companies are activating a second critical strategy to stabilize and grow their organizations: they're tapping into the innovation of their people. This is an especially important approach given the magnitude of change sweeping across the economic landscape. The "old ways" of running any business are rapidly eroding, requiring a need to respond to the marketplace with true creativity.

Research and Development departments have traditionally been tapped to take the lead on new products, services and processes. But according to a CEO survey conducted by IBM, over 40% of new ideas are coming from employees across the enterprise. By comparison, just 14% were attributed to R & D (April 2005). It's the employees who are

dealing directly with customers and wrestling with business challenges who are best equipped to generate the next game-changing concept.

Recognition can be an important catalyst in sparking these innovations. Everyone wants to know his/her contribution makes a difference, especially when the need is great. In a study done by a marketing company that explored the motivators for submitting business improvement ideas, the number one reason given was "the pride of seeing my idea implemented." Employees are particularly motivated to demonstrate their talents when layoffs become a regular occurrence. Formal recognition becomes a way to tangibly recognize an individual's unique value and his/her ability to solve even the most difficult problems.

The payoff for promoting and recognizing employee creativity can be enormous. In the 2008 Employee Involvement Association Suggestion System Survey, the 33 participating companies reported a total savings of over \$564 million, with an average savings of nearly \$9,000 per implemented suggestion.

How to Acknowledge the Right Behaviors

From a strategic perspective, recognizing innovation and creativity is just one of many behaviors that a company should be encouraging to promote business success. The tendency when times are tough is to have a laser-sharp focus on the bottom line. No one will argue with the desire to make a profit. However, business success doesn't rest exclusively in generating positive numbers for Wall Street. Companies must also do everything they can to reinforce the right behaviors which reflect the brand and the desired reputation in the marketplace. A company which encourages short-term business results at the expense of the long-term value of the brand will find itself losing customers even as the economy starts its upturn.

There are many behaviors that well-designed recognition programs can promote. For example, according to a 2007 Forum for People Performance Management and Measurement study of sales force effectiveness, the most common "wish" a customer seeks from salespeople is a high degree of consumer focus. Recognition can be a means to raise awareness on the part of salespeople, in conjunction with generating bottom-line sales. Initiatives

may also target recognizing individuals who actively live the company's stated values. And, some of the most progressive companies are finding ways to acknowledge how well employees contribute to their vision of corporate social responsibility (CSR). In fact, there is a growing interest by consumers to spend their hard-earned dollars with companies who exhibit concern for more than just their stock price. In just one of many surveys on the topic, Cambridge University noted that 60% of consumers admire companies they see as taking action to protect the environment and climate change (November, 2007). In a highly competitive economy, such admiration can have a significant impact on profit and growth.

Keeping the Best Performers

As a complement to compensation strategies, non-cash reward and recognition practices promote the company's culture, drive innovation and foster the behaviors which help a firm deliver on its brand promise. At the end of the day, building a culture of recognition is about keeping one's best performers.

There are many statistics on the efficacy of systematic and formal recognition as a tool for driving loyalty to the company and engagement in its mission, vision and values. In a national study on the link between recognition and performance, 77.6% of employees stated it was "very or extremely important [for employees] to be recognized by managers when they do good work." And the bottom line benefits of an engaged workforce are being plotted more frequently. A 2005 Gallup survey found that organizations where employees have above average attitudes toward their work had 38% higher customer satisfaction scores, 22% higher productivity and 27% higher profits.

Along with the ample evidence to support the contributions of engaged employees to the firm's performance, there is also a growing understanding of the "soft" benefits of engaged employees. Dr. Bob Nelson, one of the leading gurus of recognition, has stated that a systematic process for recognizing employees builds morale and enhances performance. ("The CEO's Role in Employee Motivation," Dr. Bob Nelson, Leader to Leader)

Perhaps no appeal has been as stirring as a recent ad in the Wall Street Journal placed by John Stumpf, President and CEO of Wells Fargo. Entitled "The Value of Team Member Recognition," Stumpf acknowledged the need



to re-examine how much companies spend on recognition events for employees, then praised the value of recognition for top team members:

“This recognition energizes them. It inspires them and their team members to want to create an even better experience for our customers... We believe our profits actually increase by rewarding and recognizing our best performers... Competition to be recognized inspires everyone to work harder and smarter... our product is service delivered by caring, energized, talented loyal team members.”

As Dr. Nelson says, “Creating energized employees and maximizing a firm’s investment in its talent demands a new set of leadership priorities.” It requires leaders with the vision to build a culture of recognition around the specific behaviors that a company requires if it is to thrive in bad and in good times.

It may seem like second nature or common sense to have a process in place to say “thank you” when someone is doing the right thing. However, too few companies have formalized recognition practices in place to reinforce critical behaviors. Recognition may often be seen as yet another people-related expense. However, elevating recognition so that it becomes a way of life is an investment in the right people and in the right behaviors... and a strategic imperative that will help a firm to weather lean economic times and thrive in a good economy.

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