Important Research For Incentive Program Practitioners and Planners

2012 Trends in Rewards & Recognition

1. Change on Steroids

Velocity of Change and Volatility

At the IRF Education symposium (October of 2011), a continuing conversation topic had to do with the rate of change in today's 'new economy.' As one group summarized,"The biggest change, is the rate of change, in volume and velocity."

It's an insight consistent with recent IRF Pulse Survey findings. In the spring of 2011, 25% of respondents said the economy has had a negative effect on planning and implementing travel incentive programs. Several months later, 62% said that the economy would have a negative impact. Likewise, a McKinsey survey of over 2200 senior managers worldwide indicated lagging consumer demand and volatility as the primary barriers to growth.[i] In short, market unpredictability and political uncertainty make economic forecasting difficult.

But change is clearly in the air. According to McKinsey, the next few years will be ripe with "big data" explosions of information that are poised to transform business processes, corporate ecosystems, and approaches to innovation. All told, massive changes are coming in how business is done and how companies approach human capital. An example is *'Fast HR*[ii], which encourages throwing out standard tools in favor of more expeditious methods to direct, focus, and energize employees.

Take Aways

Non-traditional reward programs are congruent with the *'Fast HR'* movement in that recalibration is easier and involves fewer legal issues than do standard compensation components. In fact, one executive sponsor of the IRF's recently released *'Top-Performer Recognition Travel Case Study'* cited these same reasons as central to his support of the program.

Today's C-suite has greater appreciation for the broader utility of non-cash reward and recognition programs. On the planning side, travel program owners have reported faster ramp-up cycles in keeping events relevant (55%), and frequently use hybrid and virtual formats (53%) to keep programs fresh, cost-effective and compelling business motivators[iii]. Moving forward, program owners should:

- Expect decision making to be pushed up the chain of command with frequent and abrupt changes in strategy to accommodate shifts in business strategy.
- Focus more on subjective *"above and beyond behaviors"*
- More greatly acknowledge performers who are adaptable, collaborative and innovative within reward and recognition earning structures

Today's environment is also having an impact on the types of rewards being offered. As the economy fluctuates, personal desires and perceptions of value change. This makes the sourcing and promotion of non-cash awards ever more complicated, so clearly seen in 2007-2009 when incentive travel was perceived as "extravagant."

The unresolved global governmental debt environment creates volatility in financial markets, and thus is reflected in the business environment, something of which program managers operating travel programs are distinctly aware. "Belt Tightening" in some countries is causing service disruptions, with citizens challenging governmental actions in response. Continuing tensions in the Middle East make it highly important to factor in financial, travel, and "anxiety levels" in their back-up plans.

2. The Continuing "New Normal"

Budgetary Pessimism

In the IRF *Fall 2011 Pulse Survey,* 62% of respondents believed economic conditions would continue to have a negative impact on travel programs in 2012; the percentage of respondents believing this hasn't been this high since July 2008.

McKinsey found similar results: Only 1 in 4 senior managers worldwide expect the global economy to get better in 2012.[iv] A key reason for the pessimism can be traced to what FutureTrends calls *"Discount Fever"* – the desire for deeper price cuts offered by sites such as *GroupOn.com* and *MadBid.com*. These "demand aggregators" have followed the lead of *Travelzoo,* by offering products and services related to the travel market. Such price pressures now cover the expanse of the consumer experience (merchandise, services, and travel) and will continue to drive "per item" forecasts downward.

Coupled with economic uncertainties, (on personal and organizational levels), a drive to reduce costs is also apparent in IRF Polls. Our *Fall 2011 Pulse Study* revealed that many incentive travel planners will be providing funding only for air tickets and not incidentals.[v] The Pulse Study also shows that:

- Locations closer to home are being selected (83% provide one or more programs here in the U.S. and 55% in the Caribbean)
- Per-person spending for incentive group travel fell for the third straight year to an average of $2,603 [vi]

Take Aways

A recent CMI/IRF study showed that program owners with constrained 2012 budgets will be making adjustments by:

- Cutting back on gifts
- Shortening trip length
- Booking "off season"
- Moving to North American or Caribbean destinations

Over 40% of respondents reported using individual travel incentives, most likely supported by the lower per-person average price ($2,105) and reduced administration.[vii] In addition, budget pressures are making program managers more willing to:

- Allow individuals to do their own discount shopping
- Use gift cards more frequently for reward and recognition programs.

Over 60% of program owners are using gift cards in some manner[viii]—cited by poll respondents as one of the primary changes occurring in 2012.[ix] This trend has implications for the incentive industry regarding how non-cash awards are applied and perceived.

Key questions to ask yourself include:

- How do gift cards provide trophy value attribution to the sponsoring organization?
- Do they offer the ability to track what the recipient selects?

We're operating during a time of historic change. Non-cash awards need to be understood by the industry as gift cards continue to replace other award types.

3. Tech Rules

Mobile Uprising

There are 4.6 billion mobile users globally, and 1.7 billion Internet users[x]. Nearly 50% of all U.S. online consumers are now advanced users of smartphones, social networks, and other emerging tools—up from 32% in 2008.[xi]

Network speeds are getting faster (now up to 4g). Phones have increased processing power and better user experience. Taken together, it's easy to see why smartphones are now becoming the *primary* device in use. We *choose* them for e-mail, web browsing, and product research. Salespeople who are professionally mobile are especially dependent on them.

According to McKinsey, 33% of all smartphone owners now *prefer* using them for Web browsing or e-mail—even when their PCs are nearby. In addition, as more than 50% of mobile applications switch to the next generation base website code (i.e., *HTML5*), the functional differences between mobile devices and their non-mobile counterparts are becoming negligible.[xii]

This technology movement is occurring at a time of cultural shift: Today, 1 in 10 Americans are between the ages of 18 and 24[xiii] and are considered to be *digital natives*—people who have owned digital devices throughout much of their lives and use them as much as six hours a day[xiv].

Take Aways

Better product pipelines, faster processing, and whole generations of native mobile users now in the workforce makes integrating mobile applications a necessity. Third-party sources (such as *AppMakr, GenWi, BiznessApps*) make it unnecessary to shell out big dollars or time to create mobile applications: Third party sources can do it in minutes for little to no cost.

Most incentive and recognition planners seem to understand this. A recent IRF/CMI poll showed that more than 1 in 10 incentive planners are now using a mobile or tablet application to display program progress or to enhance attendee experiences onsite. An additional 35% of planners will be adding one or more of these mobile features within the next year.

If your incentive or recognition program does not yet augment the core program with some level of mobile representation, 2012 may be the year to start. While mobile apps are a key trend, there is an ever-increasing technology wave impacting business and the incentive industry in the form of QR codes, social media, instant access 24/7, and others. These technologies have become "expected," making it important for program managers and sponsors to continually evolve their programs and technology offerings.

Of course, with greater use of mobile technology comes the greater need for balancing security issues—an obviously important consideration businesses cannot afford to risk.

4. Game-On

Gamification

In January 2011, the first conference on *Gamification* (the use of gaming techniques to solve problems and engage audiences[xv]) was held in San Francisco. Although the general theories and applications surrounding gaming approaches are not new to education and learning,[xvi] it is a relatively new concept to the world of incentive design—but not for long.

In 2011, Gamification was covered in multiple business publications that include *BusinessWeek* and the *Harvard Business Review*[xvii]. In fact, Gartner Group predicts that by 2015, half of all managed innovation processes will include game mechanics, and that by 2014, 70% of all the Global 2000 organizations will have at least one "gamified application" in place.[xviii]

In sum, game mechanics are the proverbial 'three legged' stool of technology trends (supported by mobile and social). The essence of gamification includes many constructs already used in incentive programs such as achievement levels, leaders' boards, progress bars, rewards, recognition, etc. Additional techniques include everything from installing virtual currencies, to direct challenges between users, to embedded casual games. Most importantly, these techniques encourage designers to ensure that any challenge that is presented is mapped directly to the capabilities and the unique skills of those playing.

Take Aways

Increasingly, consumers and employees expect an experience that reflects their own engagement and workflow. At a minimum, program managers should review the achievements required for all reward and recognition programs to ensure their target audiences have been given ample resources and training to achieve the required level of performance.

A recent IRF/CMI poll found that 1 in 5 incentive planners is either currently taking advantage of game mechanics on their incentive sites, or plan to do so within the next year. Planners involved in incentive travel and meetings should also know these principles apply to events as well.

In October of 2011, Dell hired an outside organization to assist with adding gamification principles to its primary customer event, Dell World Conference. In the end, Dell rewarded attendees with points and badges for downloading content, attending events, and even networking. [xix]

5. *Proof Positive*

- Increased Scientific and Management Support

One of the biggest trends has to do with the growing acceptance of non-cash compensation within both science and the C-suite. Practitioners have long held the use of non-cash reward and recognition in high regard, with a wide variety of scholarly texts providing justification. Today, a *new wave* of respected thought leaders that include McKinsey, Harvard Business Review, PricewaterhouseCoopers and Aberdeen acknowledge the effectiveness and/or strategic business value of non-cash components.

As one example, Aberdeen's annual *Sales Performance Management Study* highlighted that *best in class organizations*—those which out-performed rivals across all major financial categories—are more than twice as likely as all other firms to provide non-cash incentives. Specifically, 21% of the best in class organizations used R&R programs; only 10% of the non-best in class organizations used them.

In another example, *Employee Motivation: a Powerful New Model*, Nohria and Groysberg (Harvard Business School), argue that to "motivate workers to peak performance, an organization must meet an employee's emotional needs." Combining the work of neuroscience, biology and the results of several surveys, the authors developed a model that explains the variance in such indices as an organization's employee engagement, satisfaction, commitment and/or intent to leave.

These studies show that organizations which have reward systems in place—to reinforce good performance and sustain cultures that support collaboration and openness—outperform those organizations that don't have reward systems. Offering more meaningful and challenging work, along with a performance management process that is transparent and trustworthy, will be the key to attracting and retaining talent in the future. Organizations that blend emotional and financial elements into their compensation mix will be in a better position to attract and keep top talent.[xx]

In *Motivating People; Getting Beyond Money* (McKinsey) the authors assert that it's "time to challenge traditional management wisdoms that it is money that really counts." Their research points to "non-cash motivators (including praise from immediate managers) as being more effective motivators than the three highest-rated financial incentives (i.e., cash bonuses, increased base pay, and stock options)." They further suggested that, "non-monetary compensation can maximize effectiveness in aligning the goals of the organization with the priorities of its people."[xxi]

In PricewaterhouseCoopers *14th Annual CEO Survey*, "using more non-financial rewards to motivate staff" was the biggest change top executives planned to make in the upcoming year to their people strategies. In fact, 47% of CEOs responding said they would make *some change* in this direction, while 18% said they would make *significant change*.[xxii]

Take Aways

Greater acceptance of non-cash is good news for the incentive and recognition space; however, it also poses a challenge.

Although not all executives are convinced about the role of non-cash in the compensation mix, they're gaining interest and are more willing to listen than ever. That means program owners have a great opportunity to make their case. Suggestions for doing so include the following:

- Provide research (such as the papers cited herein)
- Map the economic impact of programs to the organization's strategic relevancy
- Show that non-cash rewards and recognition represent a better investment for the company than a variety of other business interventions

Research has shown that in order to be effective, non-cash programs must complement other strategies and initiatives, that the nomination/winning process must be clear, and that the evaluation/selection processes must be transparent.

This body of new research needs to be understood and reframed into simple business language by providers and planners alike. It is not enough to know the use of non-cash is supported by research; the evidence must be translated into a credible, persuasive rationale within the program proposal.

6. We're All Marketers Now

In the current days of spam filters, *push marketing* very rarely yields the desired result. Additionally, budgetary pressures have caused many organizations to continue the move to "self-service" approaches such as internet portals, making it more difficult to stand out among the competition[xxiii]. This has caused *Fast Future*, to predict that service will become the "killer app" in 2012.[xxiv]

Organizations that deliver truly outstanding customer support will be the winners in the new economy. Consumers expect an experience that reflects a *product or service marketing promise*. Engaging customers today requires all stakeholders within the company to be committed. It also requires that organizations redefine (or repurpose) what *marketing* really is.

To the point, who are the marketers today? According to McKinsey, *"everyone is responsible for marketing"* or, more specifically, maintaining and exceeding customer expectations.

People's attitudes and actions define the authenticity of any brand. Progressive companies are embracing the notion that the intersection of customer and employee is often *the* moment of truth for their value proposition and they are designing reward and recognition programs that reinforce the desired result.

The IRF not only expects this design impetus to gain momentum, it also envisions more cross-functional teams participating in the development, implementation and evaluation of future programs. Improving the customer's overall experience takes a keen eye.

Take Aways

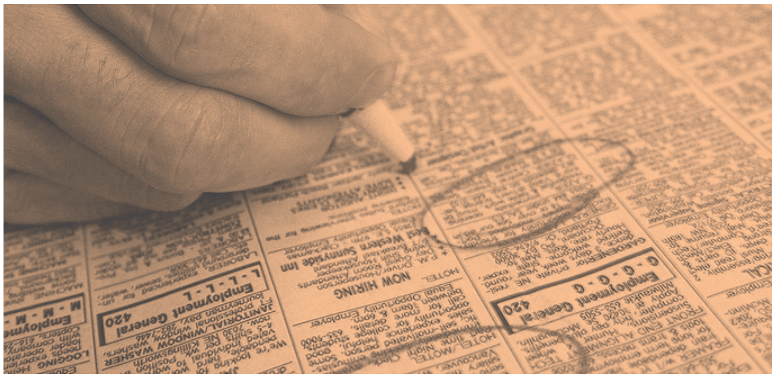
At a minimum, CMOs should be aware of any or all reward and recognition programs in play within the organization and know how they can be used to align employee behavior with customer expectations. If they have not been supporters of such programs in the past, it's now time to get on board.

As the knowledge economy continues to increase, the intersection points between employees and consumers will increase. All employees should participate in at least one reward program that reinforces the expectations of customers. Likewise, top performer travel programs should be opened up for select employees whose actions keep customers satisfied and engaged. And we do mean throughout the value chain.

Program managers can be the catalyst for this change by collaborating with the CMO, the VP of HR, and/or the VP of Corporate Communications. Aligning employees with the brand so that brand promises aren't just met but exceeded, creates significant organizational advantages.

7. Can You Handle The Truth?

- The Retention Myth And A Culture Of Innovation



If service is the "killer app," then employee engagement is the operating system. Customer expectations are now higher and the relationship between them and the employee is critical.

Research by the *FORUM for People in Business* found that consumers are actually more loyal to individual employees than they are to the brand.[xxv] However, the rough economic and tenuous workforce situation has lulled many organizations into a false sense of security about retaining employees. In short, organizations should take heed of these key research findings from the FORUM study:

- 74% of employees would consider a new job opportunity[xxvi]
- 50% of employees have considered leaving their current jobs[xxvii]
- 21% have applied for another job in the past six months[xxviii]
- 66% would change jobs for the right opportunity[xxix]

- 5% of employees say they intend to remain in their current positions[xxx]

Employees who said they *might leave* consist of key players. For example:

- 35%-40% of all key leaders now eyeing new positions are focused on their competitors[xxxi]

- 25% of employees considered as "high potentials" are at risk for voluntary separation[xxxii]

A lack of consistent recognition has impacted the "cooperative" nature of some work environments. In fact, 59% of managers say that economic conditions—and the competitive stresses and pressures that come with it—have negatively impacted their culture.[xxxiii]

This "fear factor" within some firms has stifled innovation, creating reluctance on the part of employees to share new ideas or take chances.

Recent research supports this, showing that employees at *"Rewarder Organizations"* generate ideas 250% more frequently than employees of organizations that are not rewarders. Note that only 18% of the employees at rewarder organizations were afraid of being associated with failure when taking chances.[xxxiv]

Take Aways

Organizations should know their retention risks, especially among high performers. They should also ensure reward and recognition efforts are aligned and targeted to create on-going organizational affinity within these groups.

Program owners should also give special thought to how their programs can help foster or reinforce a *culture of collaboration and openness*. Programs that are currently in place should:

- Have provisions that reward creative thinking

- Include mechanisms that share best practices across the enterprise

8. Hi-Tech And Hi-Touch

A Social/Virtual Workplace & The Need for Face to Face

In August 2011, 3 of 4 companies reported that they allow all or select groups of employees to access social networks on company devices. Only a quarter ban personal use of social networks entirely.

On the demand side, more than 75% of businesses use social networking to interact with customers, with 70% of them starting to do so within the last three years.[xxxv]

A high percentage of the population considers social sites as *the* central form of communication:

- For people aged 34 and under, social networking sites have displaced e-mail, texting, and phone calls as the primary mode of correspondence

- In just a year, utilization doubled among people over 55[xxxvi]

Social media sites are quickly becoming a primary tool to *access* information—McKinsey's latest survey reported that 33% of respondents "use social networks to navigate content on the Web," up from 13% in 2008.

Interestingly, as the workforce becomes more technologically "social," it has also become more "virtual," with many forms of interpersonal communications giving way to posts, texts, tweets or (now old school) e-mail.

With more organizations shifting to "work from home" environments and placing workers at or near customer locations, *virtual meetings*[xxxvii] are starting to give way to what Dr. Karen Sobel Lojeski calls *"virtual distance,"* i.e., the "perceived distance between individuals when their primary method of communication and coordination is not face-to-face."

According to Dr. Lojeski's research, the average corporation's overt reliance on technology for communication (even to someone in a cubicle down the hall) and outdated corporate structures have reduced efficiency, collaboration, engagement, and innovation.

To fix the problem, Dr. Lojeski advises building in *face-to-face time* at critical project points. The social elements of travel will serve the more geographically displaced workforce of the future.

As noted by Booz and Co, the next few years will see "business travel become a valued luxury" to work teams seeking more interaction.

Take Aways

All technology-enabled reward and recognition schemes need to be integrated with the company's internal social media sites and (if applicable) to external platforms as well. Likewise, program owners should look at the unique circumstances of cross-functional and virtual teams and "design in" special web-based tools that reward collaborative efforts among colleagues.

On the meetings side, a Cornell study suggests that event owners need to be better prepared to build in face-to-face meetings in order to:

- Capture attention for something new or different happening

- Inspire a positive emotional climate and encourage teamwork and innovation between groups or build strong human networks outside of solely information sharing[xxxviii]

9. "To Your Health!"

Wellness Required

Among industrialized nations, the U.S. is number one in per-capital health spending, but an unhealthy nation by international standards. According to the World Health Organization (WHO), the U.S. ranks:

- 39th in infant mortality
- 43rd in adult female mortality
- 42nd in adult male mortality
- 36th in life expectancy

Did you know that Starbucks currently spends more on healthcare for its employees than it spends on coffee? In 2009 alone, the U.S. spent over $2.5 trillion on healthcare, which is 17% of the GDP. At current growth rates, healthcare spending is expected to be 25% of the GDP by 2025.

According to the Department of Health and Human Services (2010), while up to 75% is spent on the treatment of conditions that are otherwise "preventable," less than 5% goes toward preventing the onset of diseases in the first place. Workplace wellness programs that address unhealthy behaviors and other risk factors simultaneously—while offering chronic disease management solutions—are a significant way to mitigate these costs.

As reported by the American Institute for Preventative Medicine, current workplace wellness programs have returned over $3 for every $1 invested in medical expenses alone. Recognizing the power of this proposition, the U.S. Government is raising the cap on attainment incentives to 50% of healthcare coverage costs; it's also funding small businesses to start wellness programs (Patient Protection and Affordable

Non-cash incentive additions to wellness programs have been shown (Johnson & Johnson, for example) to increase voluntary participation by up to 90%, a finding from *"Big Fat Truth About Use of Incentives For Wellness Programs,"* published by the Incentive Federation.

Take Aways

Current wellness initiatives should be integrated into existing reward and recognition portfolios. If an organization does not have a reward and recognition program, wellness initiatives are an excellent starting place.

Likewise, incentive travel program owners should not discount the ROI and internal marketing potential that may exist with including a certain number of top performing wellness employees on annual or quarterly events.

Travel program managers can very easily include healthy lifestyles into the group travel experience by providing time to engage in physical activity and including healthy meal choices on their menus.

10. Convergence and Integration

These are unprecedented times. Past recessions saw corporations reinvesting profits back into the work force after signs of recovery. That isn't happening this time.

While economists declared the recession over in 2009, wages and salaries accounted for just 1% of economic growth in the first 18 months after (compared with 15% in the 2001 recession). Corporate profits accounted for 88% of that growth in the same time period (compared with 53% in 2001).[xxxix] This has created problems of *un-* and *under-employment* outside of organizations, and has also created *over-employment* within them.

According to *The Corporate Leadership Council,* the average "job footprint" (what a worker is expected to do) rose over 30% since the recession's start. Likewise, Hay Group found that two-thirds of workers report putting in unpaid overtime.[xl]

All of this points to organizations demanding more from their people and their tools, leading to job and technology convergence on multiple fonts.

Case in point: A joint *MPI/Site Foundation Study* showed that 37% of planners have seen their roles increase in planning other events (either incentives or meetings), with sixty-seven percent anticipating *even more convergence* within the next year.[xli]

This trend is not limited to Human Resources -- businesses will expect the same from their applications.

At last count, *SaleForce.com* seamlessly integrates with over 800 applications and Facebook has over 80,000 'connect' buttons in play on various outside websites.[xlii] As businesses focus more on software than hardware in an effort to unite their internal and external communications, demand during the next few years for systems integration and process experts is expected to increase exponentially.

Likewise, Forrester predicts overall spending on IT will grow by 5.5% in 2012, and businesses will look to *cloud computing* and *virtualization* to save on capital and maintenance costs[xliii].

Take Aways

At least in the short term, you can expect roles to continue to merge. If not already completed, ensure that any systems currently owned or supported by the program can be integrated (as much as possible) with organizational CRM and sales force automation systems. If possible, be aware of your organization's (or clients') technology protocols to ensure that you are not blindsided by mandates toward cloud computing or virtualization.

11. The World Is Our "Oyster"

Global Rise Of China, Need For Multi-Lingual People, Impact Of Global Issues Affecting The Domestic Economy

According to McKinsey, the next two decades will see the *global middle class* (and its spending power) grow by up to three billion, driven heavily by expansion in the "BRIC" countries (Brazil, Russia, India, China). [xliv] Given well-documented growth opportunities in emerging economies—and the fact that only 25% of current economic activity is truly global[xlv]—executives will have increased interest in the global market.

Despite this global view, recent research of 500 corporations revealed that organizations that outperformed their industry for a decade maintained a *local* focus unique to each distinct marketplace.

This suggests that attention to geopolitical influences had a material impact on in-country performance. Responses from over 600,000 employees showed how best in class global organizations gained a competitive advantage by aligning and engaging employees worldwide—specifically through programs that were relevant to local audiences. This is consistent with the feedback the IRF received at our 2011 Fall Symposium.

For example, many open-space discussions on globalization occurred at the symposium. Generally speaking, although many organizations want to *go global* with their reward and recognition programs, doing so involves obstacles that are more cultural and managerial in nature: Customs, practices and social norms in emerging economies differ quite markedly from those in the U.S.

Take Aways

Be aware of how your reward and recognition initiatives help align *all parts* of the organization. Be prepared for cultural considerations as programs are adopted cross-border: Both require solid understanding of the issues involved with any global program, many of which are taken for granted in the operation of a North American program. For example, communications and legal matters can pose significant hurdles on a multinational scale.

12. May We Lend A Hand?
– Corporate Social Responsibility

According to MIT, *sustainability* has neared a tipping point, where companies not only see a need, but are deriving profit from sustainable business practices.[xlvi]

A survey of 2,874 managers and executives from 113 countries found that:

- 70% of companies that placed sustainability on their management's agendas have done so in the past six years
- 20% have done so in just the past two years.

Although two-thirds of respondents indicated "sustainability was critically important to being competitive in today's marketplace," most are having a difficult time making their definition of sustainability relevant and actionable within their business.

'Corporate Social Responsibility' has made the top 10 on many Executives agendas, with 31% of respondents indicating that they have found a way to profit from sustainable business practices. However, a recent IRF/CMI poll showed that the number of incentive planners including some type of CSR activity in their travel events *declined* by almost 10% in the past year, with only 31% of respondents saying they included CSR as part of their itineraries. This was most likely driven by tighter budgets and the availability of 'built in' sustainability through green hotels, etc.

Take Aways

Being aware of your organization's CSR policy and potential changes is crucial. Taking an honest look at the reward and recognition program process will help ensure that resources are sustainably applied. This could include the use of digital vs. paper communications, documenting where merchandise items are sourced, and adding eco-friendly travel and merchandise items to award portfolios.

The inclusion of CSR in any program needs to be aligned with the organization's brand and culture. In addition, program participants need to view CSR activities as desirable and its benefactor as valued. Do not assume everyone automatically feels a natural urge to participate.

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