



**Demonstrating Value in
Employee Recognition
Programs:**

Why VOI Is the New ROI

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Demonstrating Value in Employee Recognition Programs: Why VOI Is the New ROI

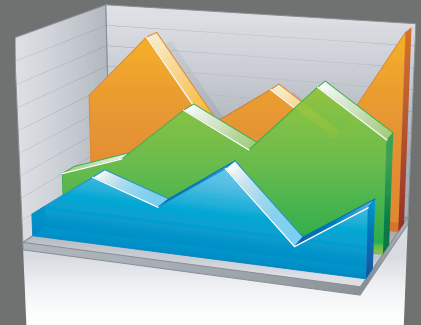
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Creating and sustaining a high performing workforce is the ultimate goal of modern human capital management. As career specialization becomes increasingly important and talent shortage looms globally¹, retaining human assets and engaging employees to contribute their full potential is vital to competitive success.

The link between employee engagement at work and organizational performance is widely established and highly generalizable across industry sectors. According to Gallup², high levels of employee engagement directly relate to nine key performance indicators at the business unit level: profitability, productivity, turnover, safety incidents, patient safety incidents, quality, customer loyalty, shrinkage and absenteeism.

Providing employees with market rate compensation and good working conditions is necessary to fulfill their basic needs, but not sufficient to instill a culture of superior performance, especially as diverse generations intersect in the workforce. One critical element often missing from the annual strategic plan is employee engagement and motivation. In part, this is due to a lack of understanding in how to calculate the value of these attributes. However, this can be solved through a strategic approach to rewards and recognition. Formal rewards and recognition programs provide the most comprehensive platform to tailor incentives to organizational values, while fostering a culture of employee engagement that achieves business goals. According to World at Work, there has been a steady increase in structured recognition programs from 2002 to 2013³. But as a growing number of organizations increase the use of these programs, a fundamental question arises: how should managers demonstrate the value of their programs to senior management?

“As a growing number of organizations increase the use of rewards and recognition programs, a fundamental question arises: how can managers best demonstrate the value of these programs to senior management?”



¹ McKinsey Insights and Publications: *Preparing for a new era of work*. http://www.mckinsey.com/insights/organization/preparing_for_a_new_era_of_work

² Gallup Q12 Meta Analysis: *The relationship between engagement at work and organizational outcomes*. <http://www.gallup.com/strategicconsulting/126806/Q12-Meta-Analysis.aspx>

³ World at Work: *Trends in Employee Recognition 2013*. <http://www.worldatwork.org/waw/adimLink?id=72689>

Usually the first response to this question is an attempt to measure ROI (Return on Investment), but leading companies are progressively realizing that the benefits of recognition programs go beyond short-term financial calculations. The emerging VOI (Value on Investment) framework proposes that intangible assets – which are an imperative for all kinds of organizations – be incorporated into value assessments⁴. The key advantage of a VOI model is that it treats ROI as an equal input to less tangible metrics, providing managers the ability to qualify and quantify the impact of recognition programs.

Business performance is determined by several variables, so decoupling the contribution of each program element and outcome is a frustrating task. However, armed with a modern, structured framework for implementation and analysis, it is possible for managers to build a strong case for recognition programs in any organization. Let's start by defining one of the most common tools in value assessment. ROI is the most common measure of financial efficiency between benefits and costs of investments.

$$\frac{\text{Gains from the investment} - \text{Costs of the investment}}{\text{Cost of the investment}} = \text{ROI}$$

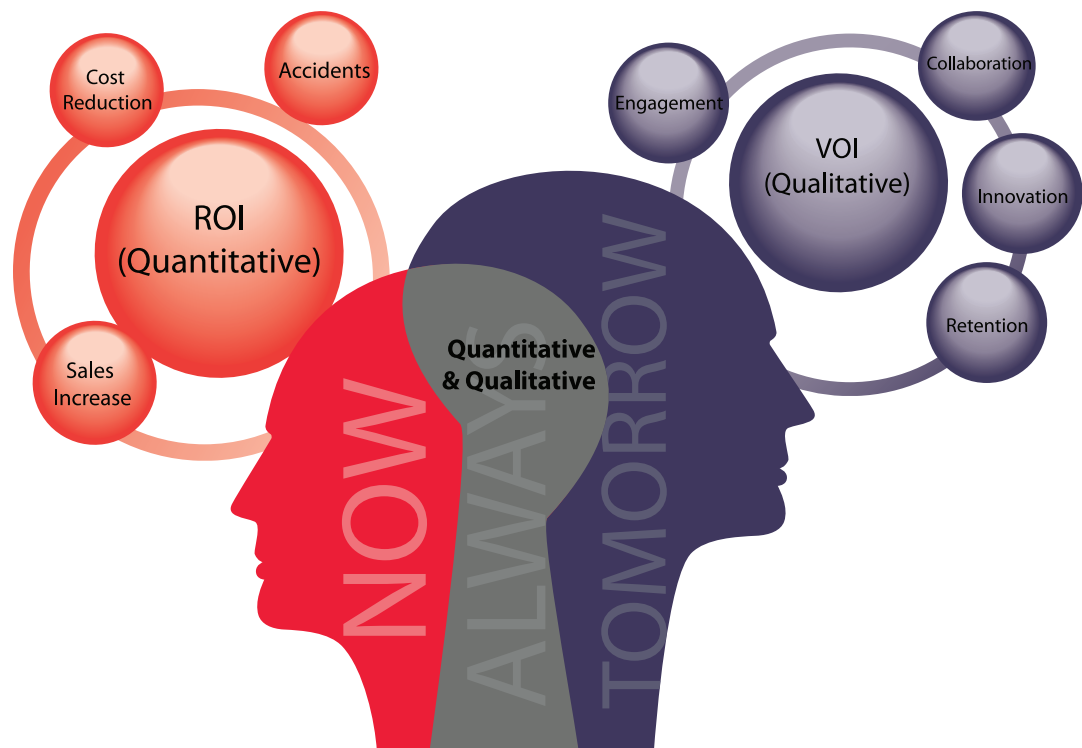
The gains from the investments are the incremental financial benefits expected from the program, while the costs are the incremental expenditures incurred to operationalize it. The challenge of the ROI calculation lies in that there is no single source to ascertain gains and costs. In many organizations, program budget, tracking, oversight, rewards standardization and implementation vary dramatically across departments and geographic regions. A sample of incremental costs include implementation, software, staff resources, rewards and hidden costs (certificate frames, pizza parties) buried in expense reports. When calculating gains, organizations should prioritize outcomes that best align with their values. While some companies may focus on increasing productivity levels and quality, others target organizational climate, employee retention, safety incidents, innovation, volunteer groups and behaviors that demonstrate company values. For the purposes of ROI calculation, other behaviors that demonstrate all gains in the recognition and reward program are to be assigned a dollar value which is difficult to determine.

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While ROI estimation remains a useful tool in making the economic case for investments in recognition programs, its measurement ability is one-dimensional, and therefore restricted to capturing only a limited number of factors that impact performance. How do you assign a dollar value to improved communication and collaborative relationships? What are the exact costs of losing a highly talented employee to a competitor? How many accidents are avoided by having engaged employees looking after each other? Even in the best of circumstances, compiling all the inputs for the ROI formula is an ambiguous task and the output provides an incomplete picture of program impact.

⁴Gartner. *Changing the view of ROI to VOI – Value on Investment.*

The emerging trend in recognition programs is the acknowledgement of multiple economic, human and organizational benefits in value demonstration⁵. In today's economy, harder-to-quantify resources such as engagement, collaboration, networks and retaining scarce skills are the key to creating services and products that have a competitive advantage. Consequently, optimizing and measuring these assets will become an imperative metric for organizational performance. It is recommended that organizations are best able to determine the impact of programs by using the more comprehensive VOI model, which emphasizes qualitative and quantitative impact on performance. The evolution to a VOI model, however, requires senior management buy-in that less-tangible assets are just as financially valuable as sales and productivity valuations.



ROI and VOI Today, Tomorrow, and Always

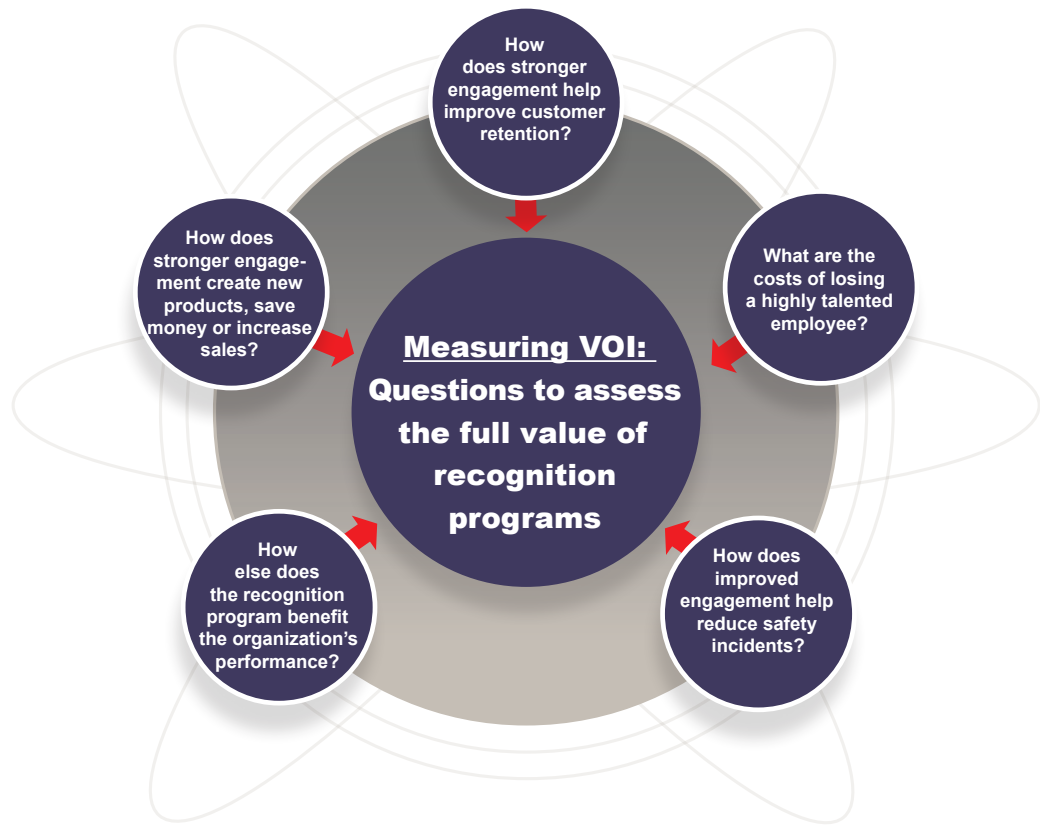
Introducing a VOI framework in the program evaluation process helps organizational leaders achieve a true perspective of all factors that impact performance. As opposed to ROI calculations, which tend to be limited in capturing the breadth of program impact, the VOI model enables appraisal of the total long-term value of the investment. While ROI may be sufficient for some tactical analysis, VOI is a more robust tool to assess the strategic potential of recognition programs to change organizational dynamics – such as fostering innovation.

⁵ Forum for People Performance Management and Measurement, Incentive Research Foundation, Human Capital Institute: The Value and ROI in employee recognition.



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To understand their program's full VOI, managers are encouraged to avoid fragmented delivery of rewards, but rather implement a comprehensive program that sets benchmarks and tracks progress over time. By doing so, managers get valuable information on how to continuously improve program components according to the evolving needs of the employee population⁶.



As formal recognition programs continue to increase, so does the demand for defining payback. VOI is the most comprehensive tool for assessing the value of a reward and recognition program. By adopting a formal, systematic approach to rewards and recognition program design, management and delivery managers will be developing a framework that will provide valuable insights that can measure the components of VOI.

As the global leader in designing, managing and delivering formal, comprehensive and measurable recognition and reward programs, Sodexo can help your organization measure the Value On Investment of your existing programs and offer solutions for new programs. To learn more contact us at sales.sodexopass.usa@sodexo.com or 888-663-4437.

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⁶*The Leapfrog Group: Assessing the value of incentives and rewards Programs: a primer*

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