Session No. 654

Green Beans and Ice Cream: The Definitive Recipe for Employee Engagement, Motivation and Recognition

Bill Sims, Jr.
President
The Bill Sims Company Inc.

Introduction

Ask any group of managers if they believe that safety incentive programs are a good idea and you will get some interesting responses:

- "Why should I PAY people to be safe? It's part of their job! That's why they get a paycheck..."
- "If we did a safety reward program, how would we prevent abuse and favoritism?"
- "Safety Incentive programs do nothing more than cause under-reporting of injuries. They produce no real behavior change."

There is a fear among safety managers that safety incentive programs create or encourage injury hiding. While it's true that a poorly designed program can lead to injury hiding, this is not a universal truth. Is it true that a poorly designed space shuttle o-ring can destroy human life? Yes. Are all o-rings inherently evil and wicked? Obviously not.

As we explore the concepts and strategies behind safety recognition programs, it will become evident that a properly developed safety recognition program can have lasting behavior change benefits without negative results like injury hiding or nepotism.

Do Safety Rewards Really Work?

In a three-year study conducted by the American Society of Safety Engineers that was published in Professional Safety magazine in 2004, 300 construction firms were tracked. One half of the companies refused to implement a safety reward recognition program for the reasons mentioned at the start of this article; the other 150 companies felt that they needed a safety recognition strategy.

At the end of the three-year study, the firms who chose to implement safety recognition programs had injury rates that were <u>50 percent lower</u> than the firms who refused to try safety recognition programs.

There are numerous case studies that support these same findings, proving that these programs work. Before we consider some of these studies, let's explore the most common objections heard to safety reward and recognition programs and provide a response to each.

Most Popular Excuses for Not Using Safety Reward Programs

<u>Excuse #1: "Why should I PAY people to be safe? It's part of their job! That's why they get a paycheck..."</u>

There are several important reasons why a good safety recognition strategy is vital for a successful business. The first is rising worker's compensation costs.

Worker's Compensation stacks the deck *against* the employer. Many employees abuse the system and fraud runs rampant.

Consider the damage that worker's comp claims can unleash against your company. The Stevedoring Company in the Southeast region of the U.S. reported $2.5 million in worker's comp costs and more than 100 Lost Time Injuries. This company only had 300 employees!

Consider the practices of unethical worker's comp lawyers who make presentations to labor unions in order to educate employees on how to milk the work comp system.

Finally, consider the lucrative side of worker's comp claims from the standpoint of an unscrupulous employee. Studies have suggested that workers can earn more income from worker's comp—tax-free no less--than working a job.

If it's true that company presidents and CEOs should receive rewards for outstanding performance such as increasing profits and expanding market shares, shouldn't workers be rewarded for performance practices too?

No amount of safety training or equipment will protect your bottom line against worker's comp fraud, but a strong incentive program that creates an atmosphere of awareness and healthy peer pressure can work toward eliminating fraudulent claims.

<u>Excuse #2: "If we did a safety reward program, how would we prevent abuse and favoritism?"</u>

The concern here is usually that middle managers will reward and recognize only the employees they like, and exclude the others--causing a wave of personnel issues and complaints of favoritism.

The solution we have developed is similar to that of President Ronald Reagan, who negotiated arms reduction treaties in the 1980s with the former Soviet Union and said, "TRUST, but VERIFY."

Don't implement a safety reward program that is the equivalent of turning your managers loose with a blank checkbook. Instead, use an innovative tool that provides managers a mechanism for on the spot recognition of good behaviors and:

- Offers a safeguard to eliminate abuse and favoritism
- Prevents repeat awards to the same person within a certain period of time
- Rewards specific and measurable behaviors that you want to increase, e.g., safety suggestions, proper lifting techniques, etc.

<u>Excuse #3: "Safety Incentive programs do nothing more than cause under-reporting of injuries. They produce no real behavior change."</u>

We've all heard of cases where poorly designed reward programs produced injury hiding. This phenomenon even has earned itself a nickname: "the bloody pocket syndrome."

Consider these case histories:

- USA Waste was fined $65,000 by OSHA because its cash safety incentive program tied to a group of employees working a number of days injury free.
- Ralph's Grocery store was sued by a former employee who was denied a cash bonus based on safety scores at his store. Ralph's was found to be in violation of state law and the jury decided in favor of the employee with a hefty settlement.

The common denominators in programs that encourage injury hiding usually involve:

- Giving team awards for large prizes that produce too much peer pressure and thus, injury hiding.
- Rewarding lagging indicator or trailing indicator measures such as working injury free for a period of days.

Use the Proactive Approach

Using a proactive approach will give companies more of the results they want: a work environment with a higher awareness of safety and fewer or no injuries.

Before an employee experiences an injury, he has nearly 300 unsafe "near misses" that involve him taking a chance or risk but somehow escaping injury. These near misses reinforce his belief that it is "ok" to take chances. On that 301st time, lightning strikes, and a recordable injury occurs.

The proactive approach rewards things employees do right and alerts them to things they are doing wrong. Though consistently successful, this proactive approach is viewed as "new school" and is inherently far more complex than the old school approach to recognition.

With the old school approach, all a manager has to do is count the safe work hours and hand out T-shirts accordingly. Working under the old school system, all the employee has to do to be "recognized" is show up at work and hide injuries (or somehow escape them).

With the new school approach, managers have more to do. They must decide in advance what behaviors to reward, and do so on a daily basis, without abuse or favoritism. The new school approach teaches employees that they can't just sit back and wait to be handed a T-shirt. They have to actually do something; take a particular course of action or display a particular behavior.

Remember, you don't want a safety reward program. Rewards are a means to an end. You want lasting behavior change. Effecting behavior change in employees requires that you *train* them and *reward* them through recognition and thanks.

Watch Out for Speed Bumps

Once you have made the decision to switch from an "entitlement" program to one that requires action, you can expect to hear plenty of grumbling. Middle managers will complain they have too much to do to reward employees for safe behavior. CAVE employees (Citizens Against Virtually Everything) will complain that they do not want to "fool with that stuff."

Overcoming these complaints can be as simple as rewarding middle managers and safety committee members for driving the behavior-based process. The people who do not want to "fool with safety" are exactly the people who should not receive an award. In fact, employees who are willing to put extra effort into safety should pick up a greater percentage of the rewards available. That's what behavior-based safety is about: being rewarded for doing something.

Why Middle Managers Must Be Rewarded

Supervisors and middle managers represent where the rubber meets the road. Squeezed from both ends and pulled in many competing directions, they can easily come to view quality, production, and safety as the red-headed stepchild.

Most behavior-change programs fail to reward the supervisor, justifying this mistake with the attitude, "Why should I reward my supervisors? Isn't a paycheck enough?" As with any employee, middle managers that do not feel appreciated will not perform as well.

However, before you rush out and start rewarding your middle managers, make sure you have a system in place that tracks the supervisors' activities in handing out rewards. This system should provide you with information about which supervisors are utilizing the program and whether favoritism is at work.

Cash Incentives vs. Recognition

Cash is not king. Findings from studies conducted by Dr. Frederick Herzberg in 1959 and confirmed more recently by Bob Nelson indicated that employees ranked *achievement* and *recognition* as the top contributors to job satisfaction. Money ranked a statistically insignificant 5th.

Recognition will produce superior job satisfaction, while cash will only produce average satisfaction. Many studies have shown that satisfied employees perform at far higher levels than unhappy ones.

In a study conducted by the University of Waterloo, employees were assigned a task and asked what type of reward they preferred: cash/gift cards or a tangible gift item. Eight-two percent of the employees picked cash. When the results were completed however, the group that was given a gift item instead of cash *outperformed* the cash group by a margin of two to one.

Corporate use of gift cards has increased exponentially in the past five years. According to New York-based Bain & Co., $45 billion worth of gift cards were sold in 2003. Yet studies prove that cash-value cards don't produce the results in structured performance improvement programs that tangibles do. Some employees end up using them to buy toothpaste and motor oil. Employers meant them to be used for a "goodie"–a treat an employee wouldn't normally have.

Additionally, incentive program participants just don't make the same emotional connection with a gift card as they do with merchandise and travel. Gift cards are handed out as a "quickie" reward, leaving the employee feeling less than congratulated. Who is going to pull out a gift card and brag, "Hey Bob, check out my $20 gift card that I got for working so hard!"

Kiplinger's *Personal Finance* magazine reports that up to 40 percent of all funds loaded into gift cards go unredeemed. If your employees don't even redeem the cards, how can you expect them to respond with increased performance and changed behaviors?

Why Does Recognition Work Better?

In the 1920s, Hawthorne Labs conducted a study to survey the effects of different lighting levels on worker productivity. A group of employees from the plant who knew they were part of a study were placed in a special room to perform their normal jobs. Output was measured each day as lights were dimmed and brightened.

As the lighting was changed, productivity went up, ultimately increasing by more than 30 percent. The engineers concluded that there was no correlation between productivity levels and a particular light setting. However, the sense of recognition and achievement the workers experienced by "being a part of things" translated into better job performance.

The Hawthorne Effect explains why new initiatives that solicit input and ideas from employees often improve performance.

Common Mistakes Made By Incentive Planners

Mistake #1: Using the word incentive instead of recognition
Remember, an incentive is akin to placing a giant hoop in front of your employees and saying, "Jump through and you get the treat!" What does this really communicate to our employees? Recognition says, "I like the way did your job. You are a valuable employee and here's proof."

Mistake #2: No top management support
The trickle-down theory is hard at work in this scenario. If top management doesn't support the program, middle managers will follow suit and the whole program will collapse like a house of cards.

Mistake #3: No middle manager buy-in
Employees can spot indifference in a heartbeat. Theories of positive reinforcement tell us that rewarded behaviors are repeated. Negative reinforcement—giving people the opposite response from what they want—will extinguish a behavior. So if top management is giving opposite responses to the program, employee zeal will be extinguished.

Mistake #4: No way to measure return on investment
When writing an annual budget, does your company set out to make "a good profit," or do they put an exact number next to the dollar sign? They use an exact number; that's how they know if profits are on target from one quarter to the next. The same is true when designing an employee recognition program: Establish measurable objectives that will clearly indicate behavior changes, or the return on your investment. For example, "Decrease lost time injuries by 50% during the first 12 months of the recognition program."

Mistake #5: Underfunding the program
In the business world, you reap what you sow. Sow the bare minimum in employee recognition and you'll reap bare minimum results in changed employee behaviors, if you're lucky.

Tax and Legal Consequences of Cash and Gift Cards

"The tax man cometh!" Many well-intentioned employers have rewarded their employees with gift cards and prizes, not realizing the full ramifications of the tax issues they are placing on their most-valued employees (not to mention their own payroll departments). Under various IRS codes, "same as cash" gifts are subject to federal and state income taxes.

Tower Automotive in Traverse City, MI, thought they were giving a grand reward to their hourly employees in the form of $15 gift cards. Imagine the employees' surprise (and that's putting it mildly) when $5.51 was withheld from their next paycheck for federal and state income taxes due on the gift.

According to IRS Code section 62(a)(1), the term "wages" for FICA purposes is defined as all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash (i.e., gift cards and prizes).

But is there a parachute? According to IRS Code section 132(a)(4), gross income does not include any fringe benefit that qualifies as a "de minimis" fringe benefit. The IRS goes on to define a "de minimis" fringe benefit as any property or service with a value so small as to make accounting for it unreasonable or administratively impracticable. How small is so small? Better ask your corporate accountants. We all know what happens when you plead ignorance to the IRS.

Here's a great example of "worst case scenario" that can be applied to employee incentive programs. Oprah Winfrey's studio audience went wild when she gave away 276 brand-spanking-new Pontiac G-6 sedans on one of her shows in September 2004. However, the recipients soon learned they had to pay taxes on the winnings—a prize with a sticker value of $28,500! The so-called winners had 3 choices: Keep the lovely car and pay $7,000 in taxes. Sell the lovely car and pay $7,000 in taxes. Or forfeit the lovely car.

As if tax troubles aren't bad enough, enter the lawyers! Ralph's Grocery Stores in California designed an unpopular bonus program for store managers. When calculating the bonus, Ralph's deducted general business losses—like store theft and damaged merchandise—from the final figure. Feeling that employees should not have to shoulder these "costs of doing business," one former store manager believed employees should not have to shoulder these "costs of doing business." This employee filed a class action lawsuit against Ralph's … and won.

The state court found that Ralph's "bonuses" actually qualified as wages, as defined by the California Labor Code. The store managers did not qualify as exempt employees, as Ralph's maintained. Thus Ralph's could not lawfully deduct costs of doing business from the employees' wages. The jury found in favor of the employees in the class action and Ralph's was slapped with a hefty settlement.

The lesson is clear—when it comes to rewards and recognition: What you *don't* know **can** hurt you!

Conclusion

After all is said and done, the evidence is clear that recognizing people for upstream behaviors is a highly effective behavior change tool, one that every successful manager must master.

Seventy-three percent of all employees report that they are not thanked or praised enough. In work environments where employees are thanked and praised regularly for positive behaviors, their need for support and recognition is being met. These environments don't just "happen"—they are created, with the help of a well-planned recognition program.

Neanderthal companies that cling to the misconception that, "a paycheck is recognition enough" have created a culture where employees will hide injuries to be a "hero" or "help" the team.

Finally, regardless of where you stand on the issue of injury hiding, I would caution all of us to accept the humbling truth that nobody is the master of human behavior. There are no easy answers or quick fixes. Anyone who supposes otherwise will always find himself proven wrong.

Bibliography

Goodrum, Paul M. and Manish Gangwar. "Safety Incentives: A Study of Their Effectiveness in Construction." July 6,2004. http://www.asse.org/professional_safety_feature_index.htm

"The Hawthorne Experiments: Management Takes a New Direction." http://www.mgmtguru.com/mgt301/301_Lecture1Page10.htm

Herzberg, Frederick and Bernard Mausner. *The Motivation to Work*. New York: Wiley Press, 1959.

Jeffrey, Scott, Ph.D. "Right Answer, Wrong Questions." http://www.salesforcexp.com

Ralphs Grocery Company, Petitioner, v. The Superior Court of Los Angeles County, Respondent; David Swanson, Real Party in Interest. Oct. 23, 2003. Court of Appeal of California, Second Appellate District, Division Seven. 112 cal. App. 4th 1090; 2003 Cal. App. LEXIS 1592.

Sims, Bill Jr. "Effective Motivation." http://www.billsims.com/oshmag2.php

"Winners of Oprah Car Give-Away Must Pay Up to $7,000 Tax." Sept. 22, 2004. http://money.cnn.com/2004/09/22news/newsmakers/oprah_car_tax/index.htm?cnn=yes

"You Call This a Bonus?" The Associated Press.