



Employee Engagement and the Next
Generation Compensation Plan

Looking ahead to the next generation compensation plan

Hard work should never go unrewarded. Businesses across America are discovering that, by obscuring the link between achievement and reward, the current fixed paycheck model of compensation fails to maximize employee potential. By properly structuring incentive programs and restoring the link between achievement and reward, employers can take advantage of the underlying potential of their employees.

Gift cards outperform other incentives

Gift cards have proven to be a particularly effective workplace incentive, popular among both employers and their employees. In a July 2012 study, the Institute for Human Resources found that gift cards for merchandise are the most effective non-cash incentives for boosting employee engagement. Almost 70% of the Human Resources Managers surveyed in the study report that they were either extremely effective or effective at increasing workplace engagement.¹

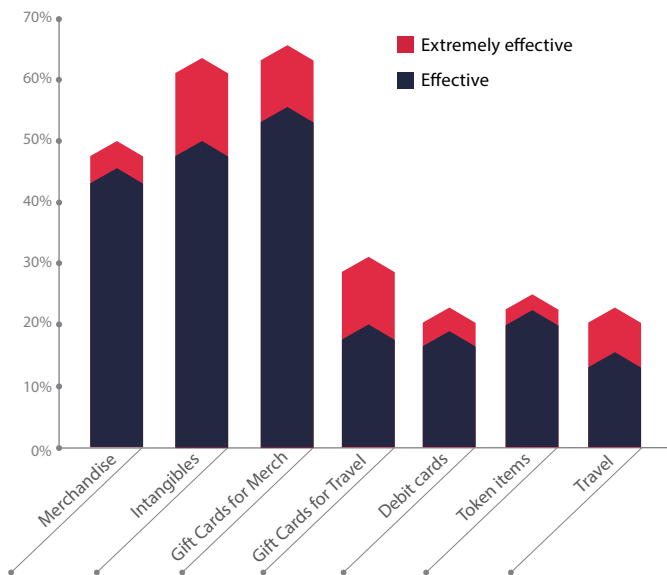


Figure B: Effectiveness of Rewards & Recognition in Increasing Engagement²

Not only are gift cards effective, they are popular among employers and employees. Employers voice their preference for gift cards over other types of awards such as cash, travel, and merchandise, demonstrating that having the right types of incentives is just as important as having them in the first place. One study found that 65% of employers rely on gift

cards to motivate their workforce, making it the most popular workplace reward analyzed. Indeed, employers are more than two and a half times more likely to use only gift cards as part of their incentives programs when compared to other common rewards.³ Another study by Incentive Magazine shows that gift cards are even more popular among workers than they are with employers: eight out of 10 employees would rather receive gift cards than other types of incentives.⁴

Incentive-based compensation programs increase employee engagement

Companies are increasingly recognizing that the best way to optimize employee performance is by supplementing static paychecks with incentivized compensation packages. The traditional compensation model fails to take advantage of employee potential and leads to reduced productivity. Next generation employee compensation plans allocate 1-3% of payroll to incentive-based compensation initiatives. These initiatives constitute a comprehensive reward program that restores the link between achievement and recognition.

Studies examining employee engagement highlight the advantages of the next generation compensation plan. Employee management researchers have highlighted the numerous advantages accompanying engagement in the modern workplace. A 2011 BlessingWhite report found that, while engaged employees contribute the most to an organization's success, less than one-third of employees worldwide are engaged in their careers.⁵ By structuring incentives and rewarding achievement, the next generation employee compensation plan is ideally suited to improve employee engagement. Indeed, a 2012 study by the Society for Human Resources Management and Globoforce found that 85% of organizations allocating more than 1% of payroll towards incentivized compensation saw employee engagement improve. By contrast, only 74% of organizations spending less than 1% on incentive-based compensation reported increased employee engagement.⁶

1 "HR Perspective on Non-Cash Rewards and Recognition in the New Economy." Institute for Human Resources, 2012, p. 7.
 2 Ibid.
 3 Dickinson, A., Einarsson, Y. and Jeffrey, S. "The Use of Reward and Recognition Awards in Organizations." Incentive Research Foundation and the Incentive Foundation, 2011, pp. 6-8. <http://theirf.org/direct/user/site/0/files/2011-PhaseIIStateofNonCashAwardUseinUS%20-%20Final.pdf>
 4 "Using Gift Card Incentives to Drive Employee Engagement." Ceridian. http://www.ceridian.com/payment_solutions_article/1,6266,15765-75081,00.html
 5 "Employee Engagement Report 2011: Beyond the numbers: A practical approach for individuals, managers, and executives." BlessingWhite, 2011, p. 9. http://www.blessingwhite.com/content/reports/BlessingWhite_2011_EE_Report.pdf
 6 "Employee Recognition Survey: Fall 2012 Report: The Business Impact of Employee Recognition." Society for Human Resource Management and Globoforce, 2012, p. 11. http://go.globoforce.com/rs/globoforce/images/SHRMFall2012Survey_web.pdf

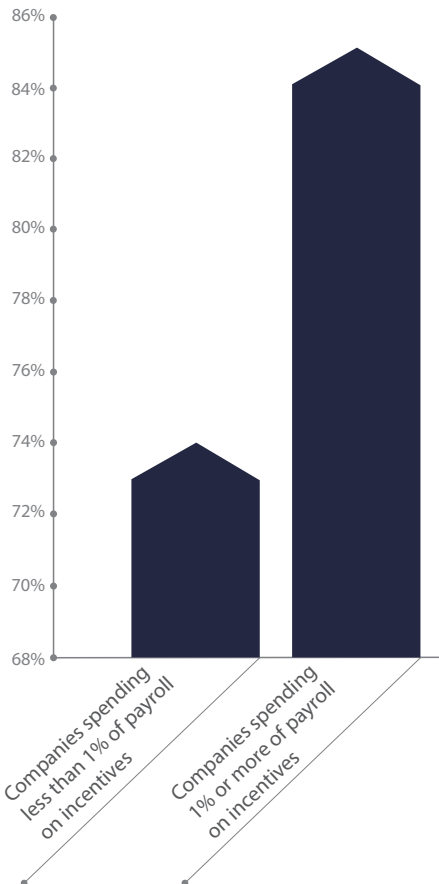


Figure A: Reported Improvement in Employee Engagement

Leading the Pack: Businesses that allocate 1-3% of payroll on employee recognition experience better results

In addition to increasing employee engagement, the Society for Human Resources Management/Globoforce survey found that incentive-based compensation programs impact other measures of performance. Simply put, businesses that allocate 1-3% of payroll to incentive-based compensation tend to make more money than their competitors. Fifty-nine percent of organizations that spent 1% or more of payroll on incentivized compensation reported an improvement in financial results, compared to only 33% of organizations that allocated less than 1%.⁷ A 2008 Towers Perrin “Global Workforce Study” echoed these findings, noting that “companies with the highest levels of employee engagement achieve better financial results.”⁸ The SHRM/Globoforce study also found that employees of companies that spent more on incentivized compensation had a greater understanding of company values, and tended to stay at the jobs longer, thereby reducing hiring and training costs.⁹

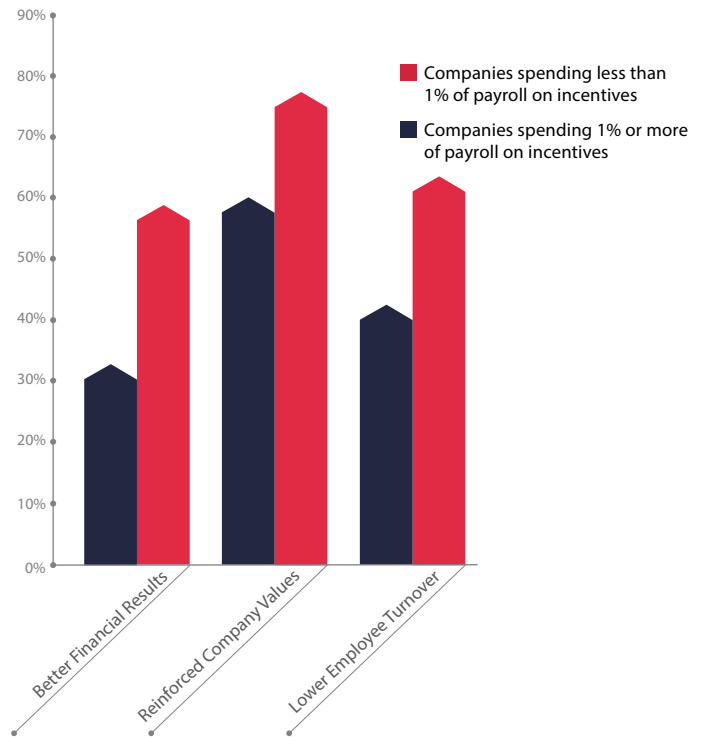


Figure C: Reported Improvement in Other Factors

Service is at the heart of most businesses. 85% of respondents in the 2012 Accenture Global Consumer Survey stated that their companies could have prevented competitors poaching their customers if they had provided better service.¹⁰ While engaged employees show improvement across the board, the effects are particularly dramatic in the service sector. A 2003 Conference Board survey demonstrated significant correlation between customer service productivity and employee engagement,¹¹ while a study of Sears Roebuck & Co. found employee engagement to have a greater impact on customer loyalty than all other employee factors combined.¹²

7 “Employee Recognition Survey: Fall 2012 Report: The Business Impact of Employee Recognition.” Society for Human Resource Management and Globoforce, 2012, p. 11. http://go.globoforce.com/rs/globoforce/images/SHRMFALL2012Survey_web.pdf

8 “2007-2008 Towers Perrin Global Workforce Study.” Towers Perrin, 2008, p. 1. http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2008/200802/GWS_handout_web.pdf

9 “Employee Recognition Survey: Fall 2012 Report: The Business Impact of Employee Recognition.” Society for Human Resource Management and Globoforce, 2012, p. 11. http://go.globoforce.com/rs/globoforce/images/SHRMFALL2012Survey_web.pdf

10 “Are York Customers on a Speedway or Stuck in the Slow Lane? The 2012 Accenture Global Consumer Pulse Research Study.” Accenture, 2012, p. 15. <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Global-Consumer-Pulse-Research-Study-2012.pdf>

11 “Linking People Measures to Strategy.” The Conference Board, 2003. <http://www.conferenceboard.ca/e-library/abstract.aspx?did=831>

12 Kontakos, Ann-Marie. “Seeing Clearly: Employee Management and Line of Sight.” Center for Advanced Human Resource Studies, 2007, p. 73. <http://www.uq.edu.au/vietnampds/docs/July2011/EmployeeEngagementFinal.pdf>

Industry leaders pave the way for incentive-based compensation

America's top companies have realized that engaged employees work harder. CareerBliss' annual survey of American employees found that industry leaders such as Google, Coca-Cola, Disney and GE have taken the lead in offering rewards and incentive-based compensation for their employees.¹³ The next generation compensation plan provides a versatile incentive solution that is applicable to a wide variety of business models and does not require the resources of a large company such as GE to implement.

A 2011 study by the Aberdeen Group further highlights the movement of industry leaders towards the next generation compensation plan. According to the study, 64% of Best-in-Class companies utilize short-term incentives to motivate employees to reach specific performance targets. Less than half of all other businesses incorporate such incentives: only 48% of Industry Average firms and 38% of Laggard firms. Over 80% of Best-in-Class sales representatives achieved their annual sales quota, compared to 51% of Industry Average firms and 22% of Laggard businesses. Further, Best-in-Class firms also saw a nearly 10% increase in the average deal size, while the increase for Industry Average businesses was marginal, and Laggard companies actually witnessed a decrease in deal size.¹⁴

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¹³ "CareerBliss' 2012 Bliss Leap Award Winners." CareerBliss, 2012. <http://www.careerbliss.com/careerbliss-2012-bliss-leap-award-winners-20/>

¹⁴ "Sales Performance Management 2012: Rewards and Recognition as a Vital Compensation Component." Aberdeen Group, 2012, p. 2. <http://theirf.org/direct/user/site/0/files/SPM-RandR-VitalComponent.pdf#search=Organization>