

# How to Use Recognition and Incentives to Shape a Risk-Conscious Culture

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## Introduction

Effective education and training provides retail employees with knowledge of the best practices that help companies achieve key business objectives and remain competitive. Building a corporate culture that motivates associates to engage in the learning process and exhibit positive behavior while on the job is essential. So, too, is rewarding and recognizing retail employees in meaningful ways when they make choices that serve the best interests of the organization, their coworkers and themselves.

For retailers, managing risks, specifically inventory shrinkage, is an age-old and very costly problem. According to the 2006 National Retail Security Survey (NRSS) published by the University of Florida, the U.S. retail industry lost more than \$40.5 billion in 2006 due to shrinkage. The retailers surveyed attributed 47 percent of their shrinkage – approximately \$19 billion in losses – specifically to employee theft. In addition, poor safety practices by employees can cut significantly into retailers' bottom lines in terms of worker compensation costs and lost productivity. The U.S. Department of Labor's Bureau of Labor Statistics' 2006 Survey of Occupational Injuries and Illnesses revealed that of the 4.2 million nonfatal occupational injuries and illnesses that occurred in private industry workplaces in 2005, nearly 15 percent happened in the retail trade sector.

The ability of retailers to prevent – or at least, significantly reduce – the amount of loss related to safety or shrink issues relies greatly on their ability to positively influence the personal decisions and habits of their associates. To encourage good behavior, management must communicate meaningfully with employees. Many retailers assume they are already doing so by distributing safety and shrink messages through “FYI” correspondence, such as pamphlets or posters. However, this approach will only resonate with employees when you also answer the question “What’s in it for me?”

Most retailers will find greater success connecting with and educating associates by designing programs that foster a sense of excitement about achieving safety and shrink initiatives. They also must determine what incentives will engage associates in the learning process, and how to keep them focused on key objectives for the long term. Staff motivation is fundamental to any training and awareness program – and this is where recognition and incentive programs come into play.

Motivating employees to act in a way that benefits the organization requires:

## Recognition

Giving recognition and providing feedback to associates builds confidence, which in turn enhances learning, influences behavior and changes negative attitudes. Recognizing employees for participation and achievement in the learning process gives value to their actions. How they are recognized symbolically (e.g., letter of commendation, “employee-of-the-month” status) is up to the individual retailer. Enthusiasm and a positive attitude are two of the most common by-products of these efforts; thus, management should strive to recognize, reward and give feedback to deserving employees. It not only helps to build valuable relationships, but also encourages healthy competition and reinforces a culture of learning throughout the organization.

However, many retailers fail to see that associate recognition is only part of a greater positive reinforcement effort that should occur within the organization daily, according to Dr. Aubrey C. Daniels, a leading expert on incentives and behavior-based safety. In his white paper, *For the Record: Incentives and Safety*, Daniels writes, “Positive reinforcement is the most important element affecting behavior, and the weakest link in behavior-based safety programs.” He defines positive reinforcement as “any consequence that follows a behavior and results in an increase in that behavior.” Recognition is just one way for management to provide positive reinforcement and demonstrate their appreciation when an associate engages in good behavior that protects coworkers and customers, and benefits the organization.

## Perspective

Helping employees put their world in perspective, so they can see “the Big Picture,” allows them to understand the connections and interrelationships that shape behavior, both good and bad. It also helps them to see how they fit in the organization, and how their actions affect coworkers and the company. Teaching employees to see the big picture requires taking the content of safety and loss prevention communication and putting it in context. Associates are encouraged to make choices based on what’s best for the organization, rather than on just their own interests.

This can lead to lasting changes in the way an associate thinks and acts. Good behavior also is likely to be contagious: Other employees will be motivated to perform as well as – or even better than – their associates, especially those who have been recognized by management. There is one other powerful benefit: Once associates understand how they influence the organization, many will want to further initiate positive change due to a sense of ownership. This should be encouraged, because involving associates in this manner aids the recognition process. Associates don’t just want to be told they make a difference; they want proof that management takes their input seriously.

Consider giving employees an outlet for sharing their ideas. For example, solicit safety improvement ideas from associates and management and publish the best concepts on the company’s intranet or in a quarterly newsletter. Or ask associates what actions they have taken to successfully reduce shrinkage at their store – something that shows creative thinking, a fresh approach that isn’t based only on existing company policies or recommendations – and determine if a good idea can be rolled out throughout the organization. Actions like these clearly demonstrate to associates that thoughtful behavior adds value, and they truly have the power to influence positive change.

## Building Programs That Resonate

Creating recognition and incentive programs that resonate with retail associates requires an understanding of employee demographics at each store location. By identifying the target audience(s), communication about loss prevention and safety measures can be tailored to be motivational. For example, the associate audience at a major department store that sells everything from automotive parts to blenders will be completely different from the associate audience at an upscale, teen-oriented clothing store. However, the demographics of the associate audience – as well as what it is motivated by and what type of messaging it connects with – also can vary greatly by each store within the same chain. In short, what associates care about most is very much reflective of their individual personality, as well as demographic influences.

Hiring an outside expert can be helpful for breaking down the demographics, and tailoring educational programs and recognition and incentive campaigns that will appeal to what may be a wide array of individual preferences. Creative Options, for example, when engaged by a retailer, will meet with key project sponsors to gather specific details about the organization’s demographics. Feedback related to elements of a suggested educational or recognition campaign, such as taglines, characters or logos, is then gathered from the associates, or a representation of the associate base, through surveys and focus groups to gauge their appeal.

Typically, there is no need to ask associates for help identifying specific problems at the store, such as inventory shrinkage; more than likely, the retailer already is well aware of the negative behavior. At this stage, management only wants to know how best to communicate with associates so they will help the organization to solve problems. However, a survey might include questions that underscore the importance of participation, such as, “Why is it important that we reduce internal theft?”

Associate surveys are designed to be highly focused. Retail associates might be asked what incentives or recognition they find motivating – or even de-motivating. An example question: “Would you be more motivated by ongoing recognition and rewards that happen on a monthly basis, or would you prefer an annual recognition campaign that includes the award of a grand prize?” The answers provided by associates help retailers build the structure of the recognition campaign. Through this

process, management learns a great deal about their associates – and also might be surprised by what they discover. For example, at a store with a high associate turnover base, it is unlikely most employees will want to wait an entire year to win a prize for good behavior – instead, they are more likely to favor a recognition program that rewards on a monthly basis. Or, perhaps there are certain associates who don't like the idea of "luck" – they want to be assured that if they perform appropriately, they have some control over whether they receive an award.

When developing a program or campaign, retailers must acknowledge that each associate connects to the organization for his or her own unique reasons. Some care about helping the company to achieve its goals because they sincerely want to do the right thing. Others feel loyalty toward the organization because they are grateful for the employment, and the income and security it provides. There also are many associates motivated primarily by the "what's in it for me" factor: They just want to know how and when they will be rewarded if they choose to engage in good behavior. This is why asking associates focused questions from the outset of a major program or campaign is imperative. The recommended solution for the organization will have a much better chance of success if it is based on direct input from those who will be influenced by it.

Education must take place at the corporate level as well. Often, those who work in the corporate offices are not in the same demographic group as the majority of associates in the stores. As a result, it is common for management to approve shrink reduction and safety messages that they find most appealing, instead of developing highly targeted messages that will resonate better with their demographically diverse workforce. So, even though retail management may not be motivated by certain messages, they must understand that their associates will be – and demographic research gathered through surveys and focus groups provides that proof.

## Types of Recognition and Incentive Programs

### Performance-Based Program

This type of program emphasizes the link between an associate's job and the company's success. Employees are offered rewards tied to measurable targets or objectives, such as a reduction in the number of injuries reported or lower shrink rates. The focus is on bottom-line results, which ultimately enhance profits for the organization. Performance-based programs also help create healthy competition between individual workers or teams of associates, or among different store locations, thus keeping associates throughout the company focused on achieving vital initiatives.

An understanding of demographics is critical for building a performance-based program. Management needs to know what will motivate associates, so they can build a structure for the program and offer appropriate incentives. Prizes are common incentives, but they must have appeal. For example, associates in the Gen Y demographic typically are motivated best by prizes such as downloadable music gift cards or electronics. Meanwhile, associates in the baby boomer demographic often like rewards they can share with their family, such as household items they wouldn't normally purchase. In a location with an associate base that includes a wide range of demographics – Gen Y, X and baby boomers – a campaign that allows for a choice of rewards can be motivating for everyone. And even though everyone enjoys winning prizes, rewards do not need to be "stuff." Instead, a reward for achieving a certain number of accident-free days could be a celebration, such as an off-site pizza party, for all associates at the store.

The downside of a performance-based program is that it might dissuade employees from reporting problems if they believe it will negatively affect their reward potential. Also, over time, there is the risk associates will start to feel a sense of entitlement – that they always will be rewarded with something tangible for exhibiting good behavior, even though they are supposed to do so, regardless of a "dangling carrot." To avoid this, retailers should change – at least once a year – the elements or structure of their program, such as the types of prizes, how they are

earned, or the frequency of their distribution, to keep it fresh and associates engaged. Also, management should always emphasize to associates that the educational messages they receive are far more important than any prize.

### **Participation-Based Program**

In a participation-based program, employees are offered rewards linked to their active involvement in specific activities, such as attending monthly loss prevention committee meetings or completing quiz cards about best practices that promote worker safety. Again, demographics should be considered when selecting the program structure and content, as well as when determining the types of rewards that will motivate associates to apply what they have learned. Like performance-based programs, incentives for participation-based programs could be prizes (e.g., gift cards) or special events, such as a storewide celebration, but can include other types of rewards (e.g., an “employee-of-the-month” recognition).

Creative Options worked with one retail organization to create a program that uses the Internet to track employee participation. Associates are asked to go to the company’s website every month to complete a short Flash-based training module. They answer questions about topics such as safety, and there is some entertainment value to the process to keep them engaged. Once the associate completes the quiz, their participation is noted and the information is tracked in a database. Every month, there is a random one-winner-per-store drawing, done by computer, and notification is sent back to the store manager. The manager then has the opportunity to take the prize – which has been supplied to the store by Creative Options – and award it to the winning associate and thank them for their participation in the training module. Other associates in the store see which associate was the recipient of the award and, also, how management is recognizing that individual.

Some retail organizations want to give something to every associate who participates in their training or education programs. In this case, the reward could be something as simple as a lapel pin. On the surface, this may not seem like an incentive that will motivate associates to modify their behavior. However, quite often, associates start collecting the different lapel pins, and will wear them while on the job to show they have participated in certain training or acted in a positive way (e.g., they have been accident-free). If the pin is attractive, it becomes a bit of a showpiece – a source of personal pride for the associate. It’s a simple but effective motivational tool: Everyone likes to be recognized for doing something that makes him or her stand out from the crowd.

The upside of participation-based programs is that they promote employee interest in and awareness of specific issues without potential disadvantages, such as underreporting or negative behavior. Associates are rewarded simply for taking the time to listen to important messages and learn best practices that promote safety, help prevent loss and benefit the entire organization. However, retailers must keep in mind that active participation in this type of program by associates is not always an indicator of behavioral change.

### **Behavior-Based Program**

This is the most labor-intensive type of program for retailers to put into place, and one not often implemented due to the amount of effort and controls required to manage it effectively. It involves taking an exceptionally strong leader (or leaders) in the organization with the strength of character to implement the program and properly communicate to associates in the stores what behavior is expected of them. It also requires the participation of several members of the management team who agree to actively go out and observe associates behaving appropriately and acknowledge them right on the spot. This is a very powerful way to shift the behavior of retail associates because they are being rewarded and recognized openly for good behavior. Essentially, management is “catching” people in the act of doing something right, and the goal is for that good behavior to become a habit for associates.

Following is an example of a behavior-based program, which typically include individual-based awards: A retailer equips every floor manager with a set of “behavior recognition cards.” While the managers are walking through the store, if they notice an associate doing something according to company policy (e.g., scan rates, the proper handling of cash), they immediately acknowledge that good behavior by giving the associate a card. In this case, it’s a “scratch card” – like a lottery ticket. The associate scratches the card to reveal an instant prize, such as a small amount of cash or some type of product, that they have been awarded.

Obviously, without there being a high level of trust in the managers who are responsible for observation, this type of program cannot work. If associates do not feel confident they are being treated fairly and that the program is balanced (e.g., they believe some employees are management “favorites” who receive recognition more often), eventually, they might feel resentment toward management. This could easily lead to a dysfunctional work environment and of course, negative behavior by associates. However, if the behavior-based program is under the direction of ethical management focused on doing things the right way, it can build a strong culture very quickly.

## Summary

The University of Florida’s 2005 NRSS survey identified several types of loss awareness programs commonly used by retailers today, and reported that most companies use one or more methods. More than 90 percent of retailers said they rely on associates to use anonymous telephone hotlines to alert them of issues such as employee theft. Two methods that came in at a close second (88 percent) were “discussions about shrinkage during the new hire orientation” and the use of “bulletin boards notices/posters.”

More than likely, little or no incentive is being provided to associates to engage in positive behavior – they are expected to simply absorb certain messages and then make the right choices. And what if an associate chooses to use an anonymous hotline to report employee theft, or takes the time to read a safety flyer and then actually modifies his or her behavior for the better? How is this good behavior acknowledged?

To reduce loss from inventory shrink and poor safety practices, retailers must find effective ways to encourage associates to play a direct role in creating positive and lasting change that contributes to the success of the entire organization. Depending on the size of the organization, this likely will require the implementation of educational and communication programs that will vary by store location, because to be effective, they must be tailored to appeal to the demographics of the associate base. Also, employing a variety of incentive and recognition programs will be necessary to keep educational messages from going stale and becoming easy to ignore or forget.

Creative Options has found that many retailers prefer to begin with a performance-based program because it is easy to get associates to focus on a specific target, such as a shrink or safety number, that can be identified as the one benchmark all associates are being measured by. The next level, typically, is a participation-based program, where infrastructure must be incorporated to accurately measure participation, such as whether an employee is attending monthly store meetings about shrink or taking part in a web-based training class. Finally, once a retailer has set an expectation of performance for the entire organization, and managers are ready to take responsibility for associate recognition activities, it likely is time to proceed with a behavior-based program. By then, it won’t be such a dramatic shift in effort for the organization – it’s just the next level of “maturity” for the ongoing associate recognition and incentive process.

For success with any type of program, retailers must make sure the effort is fully supported by corporate and store management. Communication about targets and progress is essential, and should occur at least monthly to keep everyone engaged. A budget based on the number of participants, the length of the program and expected results should be established. The program

should have a specific theme, and the length of the program should be clear from the outset. Each phase should be closed-ended, and the number of participants who receive rewards should be predetermined. Also, companies should avoid going “cold turkey” at any point in the process, such as building a large campaign with strong educational components and impressive prizes and then, after it’s over, failing to follow up with additional education or different types of recognition.

Incentives and recognition programs may change size, shape and purpose over time, but they should be an ongoing part of every retail organization’s culture. Without programs that motivate and resonate, negative behavior easily breeds among the associate base, which can quickly lead to serious shrink and safety issues. Thus, the company loses money while management keeps hoping that someday, somehow, their employees will make choices that benefit the organization – just because it’s the right thing to do.

## About Protiviti

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a leading provider of independent risk consulting and internal audit services. We provide consulting and advisory services to help clients identify, assess, measure and manage financial, operational and technology-related risks encountered in their industries, and assist in the implementation of the processes and controls to enable their continued monitoring. We also offer a full spectrum of internal audit services to assist management and directors with their internal audit functions, including full outsourcing, co-sourcing, technology and tool implementation, and quality assessment and readiness reviews.

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## About Creative Options

Creative Options ([www.creativeop.com](http://www.creativeop.com)), Protiviti’s risk communication group, designs custom communication tools that help you connect with your employees – converting strategy and policy into action. We combine the subject-matter expertise of Protiviti with decades of design experience. The end result is a cutting-edge example of how creativity and information can be fused together to create the ideal educational experience.

For more information about the topics covered in this white paper or our risk communication services, please contact:

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