GALLUP | workhuman*

From Praise to Profits:

THE BUSINESS CASE FOR RECOGNITION AT WORK

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Introduction

Employee recognition isn't just a nice-to-have. It also supports your organization's bottom line.

One powerful tool leaders have to drive engagement and performance remains untapped in the majority of organizations: employee recognition.

Today's employees feel more disengaged from their work than they have in a decade. Business is changing, and uncertainty is everywhere — and workers want to feel like they're valued and that they belong.

Amid the turmoil of recent years, it can be easy to forget that every organization is ultimately made up of people. And what those people feel — about their leaders, their team members, themselves and their lives — provides the fuel for high performance.

In previous studies, Gallup and Workhuman found that employee recognition is critical to creating and maintaining an organizational culture centered around DE&I and wellbeing. When done right, recognition boosts engagement and strengthens connections between people and across the company.

But beyond the ways recognition can improve employees' lives, it can also improve an organization's financial success. As noted in Gallup and Workhuman's first report, recognition comes with significant cost savings. In fact, by making recognition an important part of company culture, a 10,000-person organization with an already engaged workforce can **save up to $16.1 million annually due to reduced employee turnover.**

But that made us wonder: If recognition has such an impact on reduced turnover, are there other cost savings it can yield throughout the organization? Spoiler alert: The answer is an emphatic "yes!" This new analysis from Gallup and Workhuman reveals exactly how a strategic investment in recognition can boost a company's bottom line.

In this report, we break down three ways recognition improves business performance through increased productivity, safer workplaces and decreased absenteeism. We also unpack what leaders can do to start their organization on the path to human growth and development with strategic recognition.

> **The truth is this:** When employees feel valued for who they are and what they do — and are treated like they're more than cogs in the machine — they act differently, in ways that positively impact their teams and organizations.

What We Found

In this study, Gallup reviewed correlations between employee recognition and employee outcomes across hundreds of organizations and thousands of teams in different industries. Globally, one in four employees in Gallup's database strongly agree that they have received recognition or praise for doing good work in the last week. We found that if the median business in our database doubled the number of employees who strongly agree to this item, that business could see:

↑ **A 9% improvement in productivity**   ↓ **A 22% decrease in safety incidents**   ↓ **A 22% decrease in absenteeism**

Using these results, we calculated how much an average U.S. business of 10,000 employees could expect to save based on Bureau of Labor Statistics (BLS) data, and the results are striking. By doubling the one in four employees who strongly agree, in Gallup's database, to receiving recognition or praise for doing good work in the last week, an average business could expect to save:

$ **$91,989,474** in gained employee productivity $ **$2,807,200** saved due to decreased injuries $ **$3,244,416** saved due to fewer unscheduled absences

Of course, safety, absenteeism and productivity influence each other. For example, when employees are safe and show up to work, they are going to be more productive. This means that the dollar amounts cannot be added together to create a *total* savings amount. But it also means that when employees feel authentically appreciated, they drive improvements to several interrelated and compounding business outcomes.

And we get it. Each organization is unique. Our analysis does not capture all the distinctive factors that influence an individual organization's financial outcomes. But our findings do show a strong generalizable pattern between recognition and the financially sensitive aspects of any business.

The dollar amounts in this report give an example of what an average organization could expect, based on BLS data. A company may find its own results vary. Organizations with recognition levels below the median of Gallup's database are likely to see an even greater impact by improving the frequency of recognition in their workplace.

Recognition and Productivity: Making Work Meaningful

Although rewarding good work seems like an obvious way to encourage *more* good work, how much does recognition truly influence productivity?

Gallup estimates that if the median organization in our database doubled the number of employees who strongly agree that they have received recognition or praise for doing good work in the last seven days, they would likely see a corresponding nine percent increase in productivity.

Based on BLS measures of worker economic output, for a company with 10,000 employees, that gain in productivity amounts to $91,989,474[1] in employee output, with some differences based on industry.

Productivity compares the output of goods and services produced to the inputs required to produce them. When we think of employee productivity, we look at labor share, which is how much employees produce compared to what they are paid.

9% Productivity gain due to doubling recognition
(per 10,000 employees)

Average Organization	$91,989,474
Technology	$155,578,947
Finance & Insurance	$128,557,895
Pharmaceuticals & Medicine	$117,726,316
Hospitals	$114,094,737
Healthcare & Social Services	$94,847,368
Manufacturing	$90,978,947
Retail	$59,352,632

1   Productivity value per-employee was calculated using average salary and labor share estimates from the BLS. Results assume that per-employee productivity value to an organization is a ratio between average salary of an employee ($58,260 across all occupations in 2021) and U.S. labor share (57% in 2022).

Why Recognition Boosts Productivity

Many factors influence how much effort employees put into their work, but an easy way to think about it is this: Humans are motivated by extrinsic and intrinsic factors.

Extrinsic factors at work, such as getting paid, are the motivators we often think about. Pay matters, and monetary incentives can be effective if done right. But extrinsic factors alone can only go so far.

That leaves *intrinsic factors* to do much of the motivating on a typical business day. Intrinsic motivation is like a magnet that draws us toward activities that are fascinating, enjoyable and fun for their own sake.

Work feels intrinsically engaging when people:

- Like the work they do.
- Like the people they are around.
- See the meaning and purpose in their efforts.

Recognition supports all three of those criteria: **It celebrates individual work, it bonds teams together and it connects personal achievement to organizational success.**

When employees feel engaged in this way, they show up each day ready to give their best. They also work harder, are more productive and are less prone to burnout. And then there is the quality of the work: Gallup finds that when recognition is an important part of workplace culture, employees are nearly two times more likely to rate their team's performance as excellent.

Recognition and Safety Incidents: Caring for Each Other

Remarkably, Gallup research has found that employee recognition has a **substantial impact on safety incidents.** If the median organization in our database doubled the number of employees who strongly agree that they received recognition for doing good work in the last seven days, they could experience a **22% decrease in safety incidents.** Using BLS averages, this estimated **cost savings** per 10,000 employees is **$2,807,200**[2].

Every year, work injuries cost U.S. businesses $163.9 billion dollars. In 2020, 99 million days of work were lost due to work-related injuries. Not only do these events affect budgets and productivity, they also impact individuals and their families in ways that never end up on a spreadsheet. Injured workers can find it difficult to participate in ordinary daily life, including personal care, household chores or family activities.

TABLE 1

Cost savings on reduced workplace safety incidents after doubling the percentage of employees who have received recognition or praise for good work in the last seven days.			
Industry	Safety incident rate per 100 employees	10,000-employee company	
		Number fewer safety incidents	Cost savings
Overall	2.9	63.80	$2,807,200
Manufacturing	3.3	72.60	$3,194,400
Construction	2.5	55.00	$2,420,000
Hospitals	6.1	134.20	$5,904,800
Professional & Business Services	1.4	30.80	$1,355,200

2   Safety incidents per 100 employees were calculated based on BLS data on non-fatal occupational injuries and illnesses with days away from work, job restriction or transfer. Results assume the typical cost of an organization per non-fatal medically consulted injury is $44,000 based on available data from the National Safety Council and the Occupational Safety and Health Administration.

Why Recognition Influences Safety

When social bonds are strong, people look out for one another. They do things the right way, not because the rules say so, but because they don't want to see the people they care about get hurt. They don't see potential risks as "someone else's problem." They take ownership of their friends' wellbeing.

Many factors influence why safety incidents occur, but clearly attention is important. A recognition-rich culture communicates the idea that people are paying attention to how work gets done. Employees are less likely to think, "Nobody's going to notice if I cut corners. Nobody cares." if they are surrounded by team members who frequently recognize their coworkers for keeping things safe.

Another important factor is caring. Recognition increases social bonding. It says, "You matter to me." When employees are singled out for praise, or when personal milestones or important life events are celebrated, it increases their value to the team. We all want one another go home to our families safe and sound.

Lastly, recognition affirms the importance of quality. It says excellence is better than cutting corners, a job well done is better than hiding mistakes. Recognition likely increases conscientiousness on a work site, which in turn improves safety outcomes.

Recognition and Absenteeism: Being Where You Want to Be

Are missed days, here and there, simply a fixed cost of doing business? Surprisingly, no.

Gallup and Workhuman estimate that, by doubling the number of employees who have received recognition or praise for doing good work in the past week, absenteeism can be reduced to less than four days per employee annually — a 22% decrease. This translates to multi-million-dollar savings for some organizations. For example, an organization with 10,000 employees would realize $3,244,416[3] in savings due to fewer unplanned work absences.

The average full-time employee is absent for five unplanned workdays in a calendar year. People miss work unexpectedly for many reasons, from physical illness to mental health. And those missed days of work can have very different impacts based on a person's industry and role. For example, a missing worker on a manufacturing production line can easily delay the delivery of products to customers. Regardless of the role, those missed days cost large organizations millions of dollars per year. According to Gallup research, absenteeism due to mental health alone costs the economy $47.6 billion annually in lost productivity.

TABLE 2

Cost reduction in absenteeism after doubling the rate of employees who have received recognition or praise for good work in the last seven days for an organization with 10,000 employees.		
Industry	Reduction in # of workdays missed	Cost savings for reduced absenteeism
Average	11,180	$3,244,416
Professional & Business Services	9,051	$3,077,272
Finance & Insurance	7,986	$2,715,240
Manufacturing	11,180	$3,801,336

3   Absences per-employee were calculated based on BLS Current Population Survey data. Results assume a typical full-time employee is expected to work 242 days per year and is absent 2.1% of hours usually worked due to illness, injury, medical problems, family or personal obligations, civic or military duty or maternity/paternity leave. Gallup estimates that the business cost of absence for a typical full-time employee for one day of missed work is $340 USD.

Why Recognition Influences Absenteeism

What gets you out of bed in the morning?

It may sound surprising that something as simple as encouragement and praise for excellent work would make people show up more often. But, as noted in the previous section, pay only motivates people so much. Most people are motivated by caring relationships. When people receive recognition, they take pride in what they do. They are more likely to put in extra effort when they are part of a team that will notice them and appreciate them when they show up.

What's more, the likelihood of positive social interactions plays a major role in where we end up choosing to be on any given day. If we expect that we are going to be treated unfairly at work, we don't want to be there. In contrast, a consistent environment of appreciation makes the workplace a place where people *want* to be rather than simply where they *have* to be.

Another possible reason why recognition improves attendance is that it supports employee mental health. Poor mental health is highly correlated with unplanned absences: *Our data show employees who report fair or poor mental health miss four times more work than those who report good, very good or excellent mental health.*

However, work itself can also negatively affect mental health. Forty percent of employees say their job has had a somewhat negative or extremely negative impact on their mental health in the last six months. Recognition can play a role in improving this. Prior Gallup and Workhuman research found that recognition acts as a buffer against job stress and enhances multiple aspects of wellbeing. This positively impacts employees' overall lives and gives them the vitality and resiliency to show up for their employers.

Conclusion

In this report, we calculated the potential cost savings and improved business outcomes leaders can see with increased employee recognition (technically speaking, with a doubling of employee recognition in the median organization in Gallup's database). As a practical matter, this is no easy task. Only two in 10 senior leaders say that recognition is a major strategic priority at their organization.

This means that, although the science validates the practical value of recognition, very few leaders are taking recognition seriously enough to see the benefits. To see these impacts, businesses need to create cultures of recognition where praise and acknowledgment pervade every level of the organization.

However, it's not merely a question of frequency. Recognition is a powerful driver of organizational performance, but it only makes a difference — to wellbeing, inclusion, performance and profits — if it means something to the receiver. In short, it has to be more than a checklist item.

As reported in prior Gallup and Workhuman research, we have identified five key pillars of a successful recognition program:

Fulfilling

It feels appropriate to the accomplishment.

Authentic

It feels genuine rather than a formality.

Personalized

It's the way someone wants to be recognized.

Equitable

It's about achievement, not favoritism.

Embedded

It's part of the values and practices throughout the organization.

Take a moment to reflect on your own organization. Does gratitude in your organization feel genuine? Is praise personalized? Is your recognition perceived as fair?

Next Steps for Leaders: Strategic Recognition at Scale

Leaders who want to get recognition right need to take all these factors into account. That takes practice. It also requires training, tools and resources for managers and supervisors to make recognition feel right to the people receiving it.

Here's how you can get started:

- **Invest in recognition as a strategic differentiator for your culture.**
  Culture transformation takes a unified commitment from your leadership team over the long haul. Start a conversation about the benefits of a recognition culture with your colleagues.

- **Review your current recognition traditions and align recognition to priorities and company values.**
  Have rewards become a formality? Is your recognition equitable? Do your recognition practices align with your organization's values?

- **Model recognition that others can see. Culture begins at the top.**
  Your people are watching you to know what's valued in your organization. Be the kind of employee you want to see more of.

- **Personalize recognition rather than one-size-fits-all.**
  It starts with the question, "How do you like to be recognized?"

- **Appreciate employees for who they are — not just what they do.**
  Today's workers want to feel like they can be their authentic selves at work. They want to feel known as individuals. By recognizing personal accomplishments and milestones outside of work performance, your leaders can show they care about their employees as people.

Methodology

Survey Methodology. Results from U.S. data are based on a survey conducted Feb. 14-28, 2022, with 7,636 adults who are employed full-time or part-time, aged 18 and older, and living in all 50 U.S. states and the District of Columbia, as a part of the Gallup Panel™. For results based on these samples of national employed adults, the margin of sampling error at the 95% confidence level is +1.8 percentage points for response percentages around 50% and is +1.1 percentage points for response percentages around 10% or 90%, design effect included.

Meta-Analysis and Utility Analysis. Results from the meta-analysis used to inform this report are from a database of 456 research studies across 276 organizations in 54 industries and 96 countries (Harter et al., 2020). Within each study, the business/work-unit-level relationship between employee engagement was calculated for each of the Q$^{12®}$ items — and performance outcomes that the organizations supplied. In total, 112,312 business/work units, including 2.7 million employees, were studied. Utility analysis methods outlined in Asplund, Dvorak, Griffiths et al., (2016) were used to estimate the percentage change in performance outcomes when an organization at the 50th percentile in Gallup's database doubled the number of employees who strongly agree to the item, In the last seven days, I have received recognition or praise for doing good work.

These benefits are highly interactive and influence each other (e.g., higher productivity corresponds with higher profitability, and lower absenteeism corresponds with higher productivity). Therefore, the individual financial benefits calculated in this report are not additive to each other and should be considered within a broader context of all business outcomes that move an organization's bottom line.

ROI Analysis Methodology

Productivity

Productivity value per-employee was calculated using average salary and labor share estimates from the BLS. Results assume that per-employee productivity value to an organization is a ratio between average salary of an employee ($58,260 across all occupations in 2021) and U.S. labor share (57% in 2022).

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