Based on a 10-year study of 200,000 managers and employees

How the Best Managers Use Recognition to Engage Their People, Retain Talent, and Accelerate Performance

THE CARROT PRINCIPLE

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The 24-Carrot Manager

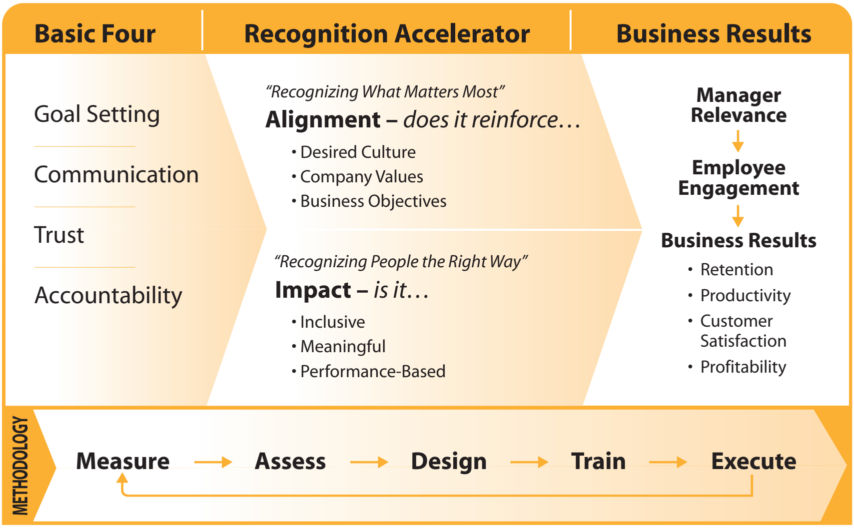
™

Appendix A:

Acceleration to Business Results

As *The Carrot Principle* illustrates, the greatest challenge for leaders in growing their firms is not introducing a revolutionary strategy but engaging employees in *executing* their current strategy, no matter what it is. After working with thousands of organizations worldwide and leading the research into recognition-driven leadership, the O. C. Tanner Company has developed a universal recognition effectiveness model that builds on the Carrot Principle to enhance employee engagement and create real business results.

Recognition Effectiveness Model



The foundational element of this model stems from the research presented in this work—that goal setting, communication, trust, and accountability are the Basic Four elements of effective management.

Next, the model outlines the introduction of the accelerant, recognition, to increase manager relevance and employee engagement. It also introduces the two critical factors of effective recognition: alignment and impact. To boost engagement and create business results, recognition must have:

- Alignment with what matters most in an organization—desired culture, company values, and business objectives
- Impact through recognizing people the right way—having well-understood, inclusive programs; creating human and personal recognition experiences that are

meaningful to employees; and ensuring recognition is performance based.

Just as this refinement process is constant and never ending, so are the results. The downward arrows in the chart illustrate the stages of success that a company can experience as it follows the recognition effectiveness model. It begins with a manager providing effective recognition for achievement of strategic behaviors and goals. As a result, the manager becomes more significant, more relevant, to employees' individual success and achievement. This heightened manager relevance creates an environment where a leader can reinforce organizational goals through continued recognition, resulting in employees who are not only bonded to their manager but engaged with the organizational vision and goals. When employees are engaged at this level in the activities that support critical goals, and are mentally and emotionally connected with their leaders and the organization, continued recognition creates measurable business results, such as retentions, productivity, customer satisfaction, and profitability.

Rarely, if ever, is recognition perfected at introduction. Therefore, the model includes a proprietary methodology to guide the continuous process of program evaluation and refinement:

- Measure employee engagement and satisfaction and manager relevance levels.
- Assess current recognition efforts to determine what is working and what can be improved.
- Design structured integrated, practical recognition solutions.
- Train managers to use the tools that will embed recognition in your culture.

- Execute by introducing and managing plan elements including ongoing communication, and formal and informal recognition programs.

Applying O. C. Tanner's recognition effectiveness model to your organization's unique vision and goals can create heightened employee engagement and improved business results.

Appendix B:

The Jackson Organization's National Employee Database

Whenever one encounters statistics of any kind, the first action should be to question the validity of the data. This can be a bit more complex than it looks on the surface, as validity is influenced by a wide range of factors: sample size (number of respondents), freshness of the data (When were these data collected, and over what period of time?), response rate (How many people did, or did not, respond to the survey?), survey design (What questions were asked, and why?), and relevance of the data (What correlations did the study identify?).

So how does The Jackson Organization's database measure up? Solid as a rock.

Who Is in the Database?

The Jackson Organization's national database comprises 166 organizations across the United States and represents 220,061 employees. This number is more than enough to provide solid statistical validity. To put these numbers in perspective, public polling for presidential races typically surveys only one thousand to three thousand people out of more than one hundred million voters, yet they can still predict the outcome of a race with remarkable accuracy.

With 221,061 employee respondents, the error range is 0.2 percent at the 95 percent confidence level. In other words, if 100 samples of 100 employees each were randomly chosen from the entire employee population, 95 times out of 100, the total results obtained would vary by no more than ±0.2 percentage points from the results than would be obtained if all employees were grouped together.

What Kinds of Data Does the Database Contain?

The variety of respondents in the database lends great depth to employee research. The following is a breakdown of the 166 organizations in the study:

14%	Fewer than 200 employees
24%	200 to 499 employees
20%	500 to 999 employees
19%	1,000 to 1,999 employees
23%	More than 2,000 employees

"Our national database is very balanced. The even spread of respondents across organizations of many different sizes allows for increased confidence in the analyses," said Allan Acton, senior vice president for The Jackson Organization. "And not just for size of an organization, either. There is a 63/37 percent ratio of urban to rural organizations in the database. The database contains organizations of different sizes, locations, and environments."

Freshness of the data is paramount to validity. The database contains only data gathered within a two-year window, with old data thrown out and new data rolled in each quarter. "The work environments across the nation are constantly changing, and the expectations of employees are part of a constantly evolving scene. Data from more than three years ago might mean something quite different now. Technology changes, management and leadership styles change—keeping the data limited to a two-year window ensures that apples are being compared to apples and oranges to oranges," said Acton.

Response rate is among the strongest indicators of a study's validity. Statisticians agree that a survey must have a response rate of at least 50 percent to be considered scientifically valid. "With a response rate less than 50 percent, you encounter what's known as nonresponse bias. If there are more people in a group not responding, the data cannot be trusted. Those who choose *not* to answer could have radically different perceptions than those who do," stated Acton. The response rate for the data we've used is an astounding 69 percent.

What Questions Were Asked in This National Employee Study and Why?

The national database includes questions whose degree of content validity has been repeatedly demonstrated through reasonable and realistic correlation to the dependent variable of overall job satisfaction. Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. For example, let's consider survey questions that focus on employee recognition, trust in leadership, and the quality of the cafeteria food. While there is a substantial body of research to support that the first two are highly correlated to overall employee satisfaction, the quality of the cafeteria food is rarely a driver of overall employee satisfaction.

An important aspect of correlation is that a high correlation score does not necessarily prove a causal relationship. For example, height and weight are correlated—tall people are, on average, heavier than short people. However, being heavy does not cause tallness (but it would be nice), and being tall doesn't necessarily cause heaviness. Height and weight are simply two variables that tend to rise and fall with each other.

Correlation is the key driver of action plans. Focusing on the attributes that are highly correlated to overall satisfaction gives the greatest return on investment. In many ways, correlation functions as data "triage." When faced with two issues—employee recognition and vending machine selection, for example—correlation will help guide priorities. Keeping good employees is far more important than having a particular brand of candy bar in the break room.

The main result of a correlation is called the correlation coefficient (or *r*) and ranges from -1.0 to +1.0. The closer *r* is to +1 or -1, the stronger the association of the two variables. If *r* is close to 0, it means there is no relationship between the variables. If *r* is positive, it means that as one variable gets larger the other gets larger. If *r* is negative it means that as one gets larger, the other gets smaller (often called an *inverse correlation*).

Top Predictors of Employee Satisfaction	Correlation
At work, I have the opportunity to do what I do best every day	.57
My performance is evaluated in a manner that makes me feel positive about working	.55
Conflicts are managed in a way that result in positive solutions	.53
My opinions seem to matter to my manager	.52
My manager shares all the information my co-workers and I need in order to feel part of the team	.52
I receive the information I need to do my job	.52
The organization has developed work/life policies that address my needs	.51
I trust my immediate manager	.51
During the past year, communication between leadership and employees has improved	.51
My manager does a good job of recognizing employee contributions	.50
I have recently received praise or recognition for my work	.50

Satisfaction is a state of mind; engagement is a state of action. Measuring satisfaction alone is not enough. Several studies have suggested that a large percentage of employees are actively disengaged even if they are satisfied. To be successful in providing the highest-quality service to its clients, the organization needs to have a satisfied *and* fully engaged workforce. The national database provides the ability to produce satisfaction verses engagement analyses that facilitate an effective and targeted development of action plans.

- High Satisfaction/High Engagement: With this group, celebrate successes and study and spread best practices.
- Low Satisfaction/High Engagement: This area requires the most attention. These are the people who are giving their all but are not happy with their work environment. The organization is most in danger of losing these top performers.
- High Satisfaction/Low Engagement: These are the folks who are happy to get by. They drain organizational resources.
- Low Satisfaction/Low Engagement: Not satisfied and actively disengaged. This group requires an exhaustive review of management and procedures.

Organizations have long understood the value of measuring employee satisfaction. It is an important tool that helps your company identify employee motivators and the drivers that contribute to employee retention and a stable workforce. These drivers often include pay and benefits, having measurable goals, level of trust with management, recognition of achievements, and development and communication of an organizational vision and strategic plan, to name a few. It is important that businesses measure and understand how they are doing in these areas. Measuring satisfaction and taking action based on those findings helps improve retention and satisfaction and can improve processes and procedures. But organizations can take their research a step further and expand beyond measuring only satisfaction.

Businesses should be using their employee measurement tool as an opportunity to develop a more productive workforce. This can be accomplished by also measuring employee engagement. Engaged employees have been shown to be more loyal to the organization and higher performers who provide more innovation, take responsibility to make things happen, have a desire to contribute to the success of the company, and have an emotional bond to the organization, its mission, and vision.

Satisfaction and engagement reinforce and complement each other. A satisfied employee is more likely to be engaged, and an engaged employee is more likely to be satisfied. However, the value is in looking at both. For example, you will want to identify those employees who are satisfied but not engaged. These employees are coming to work and doing their job, but may not be working at the highest capacity, or they are not proactive in finding other ways to contribute to the organization. On the other hand, an employee may be highly engaged but dissatisfied with her pay, management, or level of resources. Identification of this segment of your workforce is critical as they are your most productive employees; however, your organization may be in danger of losing them since they are not satisfied with certain aspects of the job. A retention effort for this portion of the workforce becomes extremely important as you strive to improve the efficiency of your organization.

By focusing on both satisfaction and engagement, organizations will develop highly productive employees who are strong contributors to the organization. Focusing on the development of these employees contributes to higher customer satisfaction, reduces turnover, increases productivity, and improves profits.

Appendix C:

2006 Survey of 1,005 Working Adults

Although The Jackson Organization's 221,061-person research study was conducted with some clients in manufacturing, high-tech, service, and financial industries, the most diverse cross-section of job types, educational levels, and backgrounds was found within health care organizations. In no other trade will you find highly paid administrators, vice presidents, and physicians; midlevel directors, managers, and supervisors; salaried and hourly staff working all sorts of day and night, weekday and weekend shifts; highly technical workers; union employees; maintenance, janitorial, and cafeteria workers; and extensive volunteer networks. And on top of all that, they have a high level of government regulation, pressing deadlines, and the stress of knowing that a mistake can cost a customer's life. As a result, much of the original research for *The Carrot Principle* was conducted within health care organizations

To prove these results across a statistically balanced general population, The Jackson Organization followed its major research with a 1,005-person study in 2006 to test these results with working people in all industries, including high-tech, manufacturing, automotive, trades, transportation, construction, media, energy, government, education, services, entertainment, pharmaceuticals, banking, and finance. The link between recognition, engagement, and satisfaction was readily apparent in the consumer study.

The phone survey was conducted in April 2006 with 1,005 working adults throughout the United States. Respondents were asked a series of engagement, satisfaction, and recognition questions that were asked on the core study. This survey proved the larger study data with a scientifically valid cross-section of job types in all industries. It achieved its goal with a margin of error of ±0.5% at a 95 percent confidence rate. In addition to confirming the findings of the major study, it added some unique perspectives on the role of recognition in the employee work experience.

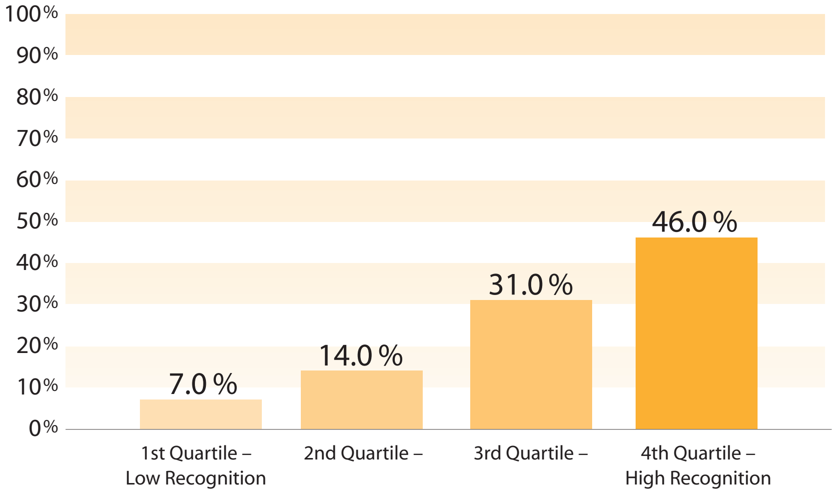
To reach some new conclusions, the researchers developed a recognition index, an average rating for the following three questions in the survey:

- My manager does a good job of recognizing my contributions.
- I have recently received praise or recognition for my work.
- My manager recognizes excellence.

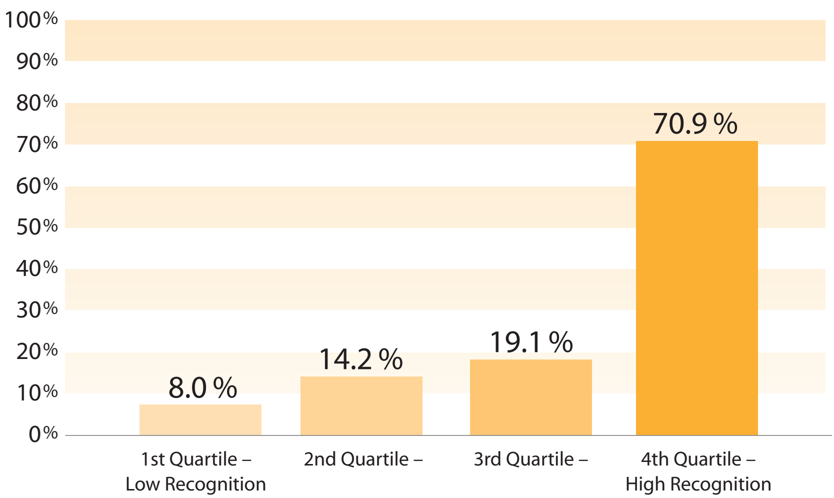
The following charts outline how overall satisfaction, morale, engagement, and employee retention are influenced by the recognition index. The columns on the far right represent the top quartile (top 25 percent) of recognition index scores. All four charts clearly show that as recognition increases (from left to right), overall satisfaction, morale, engagement, and employee retention also increase.

The driving force of recognition is strongest for morale and engagement as the move from the third quartile to the highest quartile for recognition signifies a jump of more than 50 percent for these two key indicators.

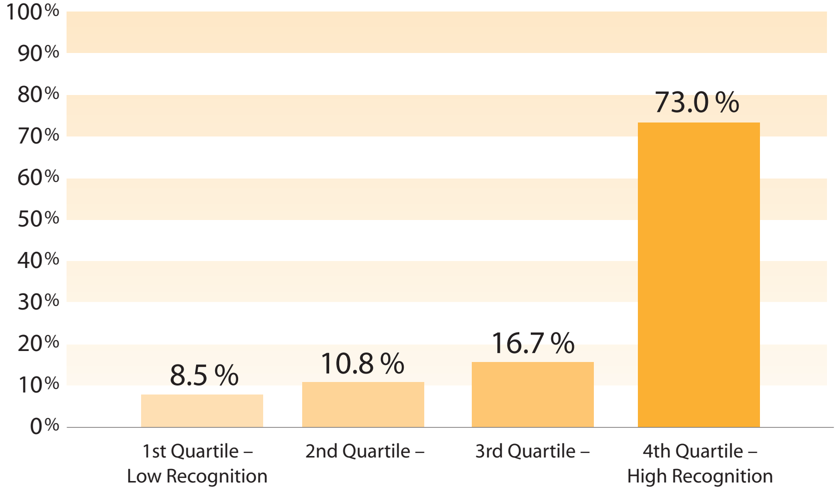
Percentage of Employees "Completely Satisfied" with Their Jobs
By Level of Recognition (n=1,005)



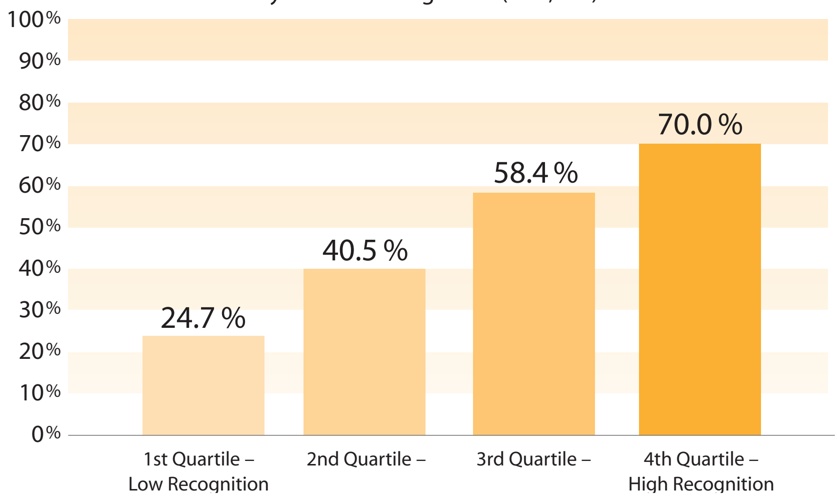
Percentage of Employees Who "Completely Agree" That Their Morale Is Very High
By Level of Recognition (n=1,005)



Percentage of Employees Who Are "Highly Engaged"
By Level of Recognition (n=1,005)



Percentage of Employees with "Very High" Desire to be Working for Their Current Employer One Year from Now
By Level of Recognition (n=1,005)



In addition to these remarkable data culled from the responses, the survey uncovered some interesting qualitative research that adds more validity to our work. At the end of the survey, respondents were asked the following question: "Other than salaries, staffing, or benefits, if you were your company president, what two things would you do to make your workplace better for employees?" *Recognition/appreciation* was the second most common response after *better teamwork and communication.*

The top four responses are listed below in order of frequency:

1. Better teamwork and more communication
2. More recognition and appreciation
3. Improve the workplace/facility
4. Better, more visible management

The demographic breakdown of the respondents to this survey were well within national statistical ranges:

Education

High school graduate or less	25 percent
Technical, trade school, or some college	31 percent
College/university complete	29 percent
Postgraduate work	15 percent

Age

Under 34	26 percent
35 to 44	24 percent
45 to 54	30 percent
55 and older	20 percent

Occupation

Professional/technical	39 percent
Clerical/service	18 percent
Tradesman/machine operator/laborer	15 percent
Middle manager	11 percent
Sales and marketing	9 percent
Upper management	6 percent
Did not respond	2 percent

Appendix D:

Recognition ROI Survey of 26,000 Employees

Forming a summary of data from 26,000 employees at all career levels, the Recognition ROI study examined thirty-one organizations of varying size and profitability. The Jackson Organization partnered with us to summarize and publish this research on May 25, 2005.

The research focuses on one common question that was addressed in every survey given to the 26,000 people. The respondents were asked to rate, on a scale from low to high, their level of agreement with the following statement: "My organization recognizes excellence." A mean score of all employees from the same organization was then taken. Based on this score, the companies were rated and placed into one of four quartiles:

- Bottom: The bottom 25 percent of companies with employees claiming the lowest level of agreement to the statement, "My organization recognizes excellence."

- Second to the bottom: The second-to-the-bottom 25 percent of companies with employees claiming the second-to-the-lowest-level of agreement to the statement, "My organization recognizes excellence."
- Third to the bottom: The second-to-the-top 25 percent of companies with employees claiming second to the highest level of agreement to the statement, "My organization recognizes excellence."
- Top: The top 25 percent of companies with employees claiming the highest level of agreement to the statement, "My organization recognizes excellence."

Each quartile was then compared against the following three profitability measures:

- Return of equity (a fiscal year's earnings divided by the average shareholder's equity for that year): This measurement is used as a general indication of how much profit a company is able to generate from the investment provided by its shareholders.
- Return on assets (a fiscal year's earnings divided by total assets): This number tells how much a company has achieved for each dollar of assets utilized.
- Operation margin (the ratio of operating income to sales): This shows how much a company makes from each dollar of sales before interest and taxes.

The startling results showed companies in the top quartile (companies with the highest mean scores from their employees' agreement to the statement, "My organization recognizes excellence") earned a significantly higher return on equity, return on assets, and operating margin. For detailed results, please refer to chapter 1 of this book.

The thirty-one organizations in this study were health care organizations, a solid proving ground for this research since in no other industry is there such variety (for example, of pay levels, job types, union and nonunion employees, technical workers, shift variances). The researchers have worked with organizations in high-tech, financial services, manufacturing, and other industries and estimate with good faith that these results would not be statistically different in other industries, as was evidenced with the correlation of recognition to employee engagement and satisfaction in the general consumer study outlined in Appendix C.