

The Carrot Principle

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

By Adrian Gostick and Chester Elton; Free Press, 2007

Why You Need This Book

In this book, authors Gostick and Elton show how the power of purpose-based recognition produces astonishing increases in operating results, however those are measured. Recognition in this sense, however, is recognition done right combined with four other core traits of effective leadership.

Further, they show how great managers lead with carrots incentives and not sticks, and in doing so achieve higher productivity, engagement, retention and customer satisfaction.

The Accelerator: How the Best Managers Deliver Extraordinary Results

A missing ingredient

In business, there are leaders who are visionaries those who see the untapped potential of their workforces and believe that it's possible to reach higher. They have been trying for years to experiment with their leadership style, have consulted mentors, read business books, and attended seminars, but have always fallen just short of getting their employees to reach their maximum potential.

What they need is an accelerator the so-called missing ingredient that will bridge the gap between where their teams are now and where they can be. And in the workplace, there is no accelerator with more impact than purpose-based recognition. This, then, is the Carrot Principle the use of purpose-based recognition to spur company success.

The data from the study overwhelmingly supports this conclusion:

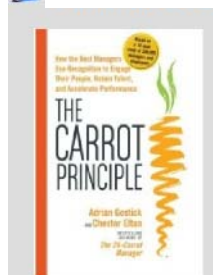
1. In response to the question "My organization recognizes excellence," those companies that scored in the lowest 4th overall had an average return on equity (ROE) of 2.4 percent, whereas those scoring in the top 4th had an average ROE of 8.7 percent.
2. Those companies rated most highly in response to, "My manager does a good job of recognizing employee contributions," also ranked very highly regarding customer satisfaction, employee satisfaction and retention.
3. Of the people who report the highest morale at work, 94.4 percent agree that their managers are effective at recognition. In contrast, 56 percent of those who say they have low morale give their manager a failing grade regarding recognition.

A note regarding cash: cash is not the most effective "carrot" or "accelerator." Small amounts of cash are easily forgotten, and large amounts of it are typically given out as bonuses for mid- to upper-level leaders.

The study results show that when recognition is considered effective, managers:

1. Have lower turnover rates. People always cite "feeling appreciated" and "informed" as important when asked what matters to them in a job.
2. Achieve enhanced business results. Investing in recognizing excellence is

About the Book:



Author: Adrian Gostick and Chester Elton
Publisher: Free Press
Date of Publication: 2007
ISBN: 0-7432-9009-7
Number of Pages: 211 pages

strongly associated with the best financial performance.

3. Are seen as far stronger in the Basic Four areas of leadership, namely goal setting, communication, trust and accountability.

In other words, recognition accelerates a leader's effectiveness.

The Basic Four of leadership

Recognition gives coworkers a vision of the possible and the desire to garner the rewards. But it is far from the only answer; the basics have to be in place first. If you haven't mastered the basics of leadership, you most likely don't have the foundational basis for employees to accept and react well to recognition.

Here are the Basic Four areas of leadership, along with a brief description of each:

Setting clear goals. Companies that wrap their day-to-day lives completely around their mission and values can infuse their employees' work with a clear sense of purpose. Employees need clarity from their leaders: clarity of goals, clarity of progress and clarity of success. Great managers seek to interconnect company goals with individual employees' goals, and that is truly what leadership is about. (Goal setting has a higher correlation to employee satisfaction than the other Basic Four skills.)

Communicating openly. Being left out of the loop is the single biggest cause of dissatisfaction in many a company. A senior leader's job is to communicate corporate goals to employees and motivate them to achieve them by maintaining open communications at all levels. If the leader involves himself in it, the communication can develop according to the leader's priorities and goals.

Building trust. In an organization where leaders are trusted, there is a greater level of employee investment. When an employee believes his

manager has his best interest at heart, it motivates him to give his best to both his work and the company per se.

Holding people accountable. Accountability means that anyone who makes a promise to anyone else fulfills that promise, because it's the right thing to do. One key to holding people accountable and doing it right is equilibrium. As leaders we have to learn to identify not only employee failures, but also employee triumphs and successes.

Leadership accelerated

To each of the Basic Four of leadership, the application of the Carrot Principle is a very powerful accelerant:

Goal setting accelerated. The act of rewarding activities that move employees closer to the goal allows leaders to correct the group's course in a positive way, instead of pointing out deficiencies in performance. The good points are highlighted for all to see, instead of the opposite.

Communication accelerated. "Communicate to the masses, but manage to the one." Messages to everyone are important for you to set the tone, reinforce standards and so on and so forth, but to influence behavior, to explain what really matters most, each individual has to be spoken with frequently, specifically and in a timely manner. Personalized recognition is something everyone understands.

Trust accelerated. The moment someone is publicly recognized for a contribution they made or for excellent results or the like, the trust meter shoots off the scale. In that moment, both the employee being recognized and everyone else present realize they can trust you to share the credit that you won't hog the spotlight.

Accountability accelerated. Too often, accountability is treated as negative; if recognition is added to the equation, it can be extremely

positive. Give recognition whenever an employee delivers, especially if this is done in an above-and-beyond manner. This can be enhanced when a visible recognition award is given.

Altruists and Expectors

For our purposes managers who do make the effort to practice some form of recognition can be grouped into two categories:

Expectors. Managers who hand out recognition awards but who end up expecting something in return, for instance, that their employees will work the next weekend when asked to. They link recognition efforts to performance demands to the extreme pressure they felt to deliver corporate performance. Recognition thus becomes a form of manipulation to drive productivity and loyalty.

Altruists. Managers who give recognition with a more altruistic, human motive. For these leaders, recognition seems to stem from a more deeper-seated, human need than for Expectors. Altruists care more about their employees as individuals and take the time to find out what motivates each. They recognize more often and are prompter at celebrating noteworthy behavior. They rarely refer to their people as "staff"; instead they call them by name or use words such as "people" or even "family" and are not afraid to share credit with them.

Carrot Culture: How Great Organizations Create World-Class Results

Creating a Carrot Culture

When the employees in your organization feel like they can do anything, you know you've built a Carrot Culture, a rare environment where employees are valued and appreciated for their contributions. This creates passion and



About the Author/s:

Adrian Gostick is the author of several successful books on employee engagement and retention. The Carrot Principle by Simon & Schuster has been a New York Times and Wall Street Journal bestseller, and The 24-Carrot Manager has been called a "must read for modern-day managers" by Larry King of CNN. In 2006, The Invisible Employee, from John Wiley & Sons also made the New York Times Best-seller list.

Adrian's books have been translated into over 20 languages and are sold in more than 50 countries around the world. As a leadership expert, he has appeared on network television and has been quoted in dozens of business publications and magazines.



Called the "apostle of appreciation," by the Globe and Mail, Canada's largest newspaper, and "creative and refreshing" by the New York Times, **Chester Elton** is co-author of several successful leadership books. The Carrot Principle by Simon & Schuster has been a New York Times and Wall Street Journal bestseller, and The 24-Carrot Manager has been called a "must read for modern-day managers" by Larry King of CNN. In 2006, The Invisible Employee, from John Wiley & Sons also made the New York Times Best-seller list. Elton's books have been translated into over 20 languages and have sold over half a million copies worldwide.

As a motivation expert, Chester has been featured in the Wall Street Journal, Washington Post, Fast Company magazine, and the New York Times, and has been a guest on CNN, Bloomberg Television, ABC "Money Matters" MSNBC and on National Public Radio. A sought-after speaker and recognition consultant, Chester is the senior vice president of the Carrot Culture Group with the O.C. Tanner Recognition Company.

performance among your workers.

Much of this passion revolves around the choice of the right award. If you look at recognition through an employee's eyes, you'll see that they see it as something a supervisor takes time out to do it's something not strictly required but is done anyway. This creates an instant connection on a different level. Recognition can take many different forms. But whatever it is, the best reward is always tailored to employee interests and lifestyle, given by a manager who cares enough to find out what motivates each individual.

By doing so, the manager himself or herself becomes relevant as well. Relevance means that you matter and you have impact to those in your care. And nothing makes you more relevant than being the guy or girl in charge of the carrot supply.

Are they engaged and satisfied?

Before you can begin to create a Carrot Culture, you have to take stock of how far you need to go to get there by measuring satisfaction and engagement.

Satisfied employees are happy with current pay, benefits, and atmosphere. They are so happy, in fact, that they may be reluctant to change the status quo through achievement or initiative.

Engaged employees, by contrast, are those who are willing to do whatever it takes to help the company succeed including innovate, lead and serve customers. But they are quite sought-after and are usually first out the door if they are unhappy with anything about the company.

Neither employee satisfaction nor engagement alone can result in a Carrot Culture. Managers need employees who are satisfied with pay, benefits and the work environment, and who are engaged to achieve.

You can determine where your organization stacks up by coming up with attitude surveys.

1. Conduct a census survey-- a type of survey sent to every employee, which allows you to gauge the opinion of each and every employee.
2. Maintain confidentiality the less faith employees have in a survey's confidentiality, the less they will participate.
3. Keep response rates high. If less than 50% are responding, you can be sure that those who do are biased towards the negative.
4. Take benchmarks in moderation. External benchmarks are limited because they may not apply too much to your company. Look to internal benchmarks and how they change over time.

The Building Blocks of a Carrot Culture

Hollow values statements are the largest obstacles to creating a Carrot Culture. Corporate culture has to run deeper than just the posters mounted on the walls.

It all starts with culture. Culture is how we do things: it is comprised of the rules, spoken or unspoken, that we play by. And for a culture to succeed, it must celebrate and reward excellence by recognizing it.

Here are four of the most common forms of recognition that make up the backbone of a healthy recognition culture:

1. Day-to-day recognition: the ways we regularly praise and express gratitude to employees. This should be done frequently (every seven days) and specifically (single people out general praise has no impact), and in a timely manner (do it too late and you might as well not do it at all).

2. Above-and-beyond recognition: a more formal response elicited by going above and beyond what is required.

Y Reward those achievements that support and further corporate values.

Y Make sure the perceived value of the award is more or less equal to the impact of the achievement.

Y Choose an award that suits the employee's interests, tastes and sensibilities.

3. Career recognition: reward the loyalty of those employees who have stuck with the company for a long time.

4. Celebration events: celebrate important moments in your company history. Take the opportunity to thank everyone and communicate, "We're in this together."

Carrotphobia: why we don't recognize

Here are some all too common reasons why we (whether consciously or unconsciously) fail to recognize, all of which are easily refutable by what's already been discussed:

Y "I'm afraid of jealousy."

Y "It's too easy to be inconsistent (and hard to observe everything)."

Y "If I recognize too much, it'll lose its meaning."

Y "I don't know what to give for what achievement."

Y "We catch up with them at raise time."

Y "Why would I recognize them? Aren't they just doing their jobs?"

Y "They want only cash as a reward."

Y "My tax department says we need to report the cost of an award on the employee's W-2 and then withhold taxes."

Y "When I recognize above-and-beyond behavior, it's most often outside their job scope. I'm more interested in driving performance within their job scope."

Y "She already gets too much recognition."

Managing by Carrots: You Can Get There From Here

The Carrot Calculator

This section intends to provide specific advice regarding how to provide the perfect reward to achieve the right impact.

To do so, look at the following:

Y **Level:** What level of award is appropriate for what behavior? Decide if the successful behavior is:

– A small step towards living your values (thank-you recognition)

--A one-time above-and-beyond action ("bronze awards" tangible items in the \$50 to \$100 range)

– An ongoing above-and-beyond action ("silver awards" tangible merchandise, publicly presented, in the \$100 to \$500 range)

-- An action, project, or behavior that significantly impacts the bottom line ("gold awards" same as the "silver awards" but worth more than \$500)

Y **Spending:** How much should you budget for recognition? You can budget about \$1,000 per employee per year for all the sorts of awards he or she may win.

Y **Awards:** What creative awards should you offer for excellent performance? See the next section!

Some creative recognition ideas

(grouped into the various areas of the Carrot Principle)

Goal setting

Y Plan a small celebration on a new employee's first day to welcome him/her and have everyone sign a welcome-to-the-team card.

- ✓ Ask each employee to list his or her values and see how they link to the mission and vision statements.

- ✓ Encourage employees to post their values list conspicuously at the office.

- ✓ Ask an employee to help train a new employee in a job function where the old employee excels.

- ✓ Give employees important tasks outside their job descriptions that push them to develop.

- ✓ Don't criticize an employee define the problem, state what she has to do to meet expectations, then tell her you're confident that she can solve it.

- ✓ In the middle of a stressful team assignment, greet employees with a hot cup of coffee for each.

- ✓ Set a daily goal that supports company goals; hold a quick award ceremony for the best performer of the hour. Hold a celebratory meal.

- ✓ Set a goal today to identify what each employee in your department does best.

- ✓ Value employee expertise. Create an instruction manual featuring team members as the experts. Compile their knowledge for the new staff.

Communication

- ✓ Attend a conference on recognition or read another book on it.

- ✓ Write down 3 things that went right at the end of the day.

- ✓ Call people by name and say "good morning" to them daily.

- ✓ Give people thank-you cards to help you recognize exemplary work.

- ✓ Invite a team to your house for a meal to get to know them better.

- ✓ Personally give paychecks out and define what people contribute to the company while doing so.

- ✓ Bring in a masseuse and a massage chair for free massages.

- ✓ Spend ten minutes looking for someone furthering your company's goals and

recognize them on the spot when you do.

- ✓ Ask people, "If you had a day off to spend as you would, what would you do?" See them as people outside the office.

- ✓ Carefully recognize even poor performers.

Recognition

- ✓ On a new employee's first day, give her a card that says you're glad she's joined the team and what impressed you most during her interview.

- ✓ Improve your employee's working conditions with a nice new chair.

- ✓ Send out one handwritten note a day to someone who has helped you.

- ✓ Print out and present a team member a "long lunch" certificate for a two-hour break.

- ✓ Give a day pass to your employee's favorite golf course, spa or country club.

- ✓ Bring something back from your next trip for each employee.

- ✓ Hire a personal chef to prepare dinner for an employee and her family for a night.

- ✓ Hire a maid service for a month for an outstanding employee.

- ✓ Hire a limo for an outstanding employee.

- ✓ Celebrate service anniversaries as close to the date as possible.

Trust

- ✓ Don't even think about cutting down on recognition when resources get tight. ✓ The next time one of your people makes a mistake in an effort to move forward in unfamiliar territory, reward it.

- ✓ Solicit input on a current project and act on it.

- ✓ Learn to be an active listener. Practice eye contact. Take notes. Ask follow-up questions.

- ✓ Be willing to pitch in and do whatever for the sake of the team.

- ✓ Invite an employee to participate in the interview process for a new person by interviewing for specific character traits or skills.

- ÿ Take responsibility for your own mistakes, but share credit for successes.
- ÿ Send an email to your CEO or division head outlining an employee's above-and-beyond efforts; copy your department on the email.
- ÿ Give people who have demonstrated a consistent ability to exceed expectations the tools to self-monitor.
- ÿ Make sure your walk is consistent with your talk.

Accountability

- ÿ Give an employee the opportunity to interface with the big boss on her next big project.
- ÿ If you have someone on your staff who always does solid work but never gets recognized, change that today.
- ÿ Save compliments for a person in your department and record them so you can present them during the person's annual review.
- ÿ Dare to give perfect scores in an annual review. Ignore greatness and it will go away.
- ÿ Make a star performer the star of your company's next video or print ad.
- ÿ At the end of every year, name your conference room after an exceptional employee. Print up a plaque and post his or her picture.
- ÿ When you promote someone, make it public. Gather the group together to celebrate the achievement.
- ÿ Ask the company head to write a personal note to an employee who has made a remarkable contribution, and send it to his home.
- ÿ Post letters of praise from clients and colleagues on a bulletin board.
- ÿ Give employees credit for their successes this doesn't diminish your own.

Reproduced With Permission From

