O.C. Tanner Learning Group
White Paper

Performance: Accelerated

A New Benchmark for Initiating Employee Engagement, Retention and Results

Based on a 10-Year, 200,000 person study of Managers and Employees Plus New Groundbreaking Global Statistics featured in *The Carrot Principle*

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WHAT'S MISSING? WHY CAN'T WE ACHIEVE OPTIMAL PERFORMANCE?

There are leaders who are visionaries. They see the untapped potential of their workforces and believe it is possible to reach higher. They have consulted mentors, read business books and attended seminars. Through their efforts, they have inspired their employees—bringing them close to reaching their maximum potential...but not all the way.

What could allow managers to achieve full potential? What could ignite dedication, commitment and motivation? What is the one thing that is proven to transform "good enough" into "great?"

The simple answer is: an accelerator.

CAN RECOGNITION ACCELERATE PERFORMANCE

Scientists have known the secret of accelerants for decades, adding them to speed chemical reactions, achieving results more quickly. Accelerators work the same way in business, making the things you're doing work better, faster and more smoothly, without throwing you (or your organization) off balance. The relationship between a management accelerant and improved business results is highly predictable. And in the workplace, there is no accelerator with more impact than purpose-based recognition.

THE RESEARCH

During the past fifteen years, we have visited more than two dozen countries, taught seminars to almost a million people, and have spent thousands of hours consulting with leaders of Fortune 500 firms. We have repeatedly witnessed the power of recognition to improve not only morale but business results as well. But we still needed empirical evidence.

Our theory was that purpose-based recognition was a powerful accelerator. Yet, without thorough research, our personal accounts with many of the world's most renowned companies could still be defined as just that—our personal accounts. So, we set out to conduct one of the most extensive research projects on workplace productivity. Would the research agree? Is recognition truly an accelerator?

- In response to a question "My organization recognizes excellence," the organizations that scored in the lowest 25% had an average Return on Equity of 2.4%, whereas those that scored in the top fourth had an average ROE more than three times higher. In other words, companies that most effectively recognize excellence enjoy vastly superior profitability.
- The teams and offices rated most highly by employees in response to, "My manager does a good job of recognizing employee contributions," also typically place in the top scores for customer satisfaction, employee satisfaction and retention.
- Of the people who report the highest morale at work, 94.4% agree that their managers are effective at recognition. In contrast, only 2.4 % of people who have low morale say they have a boss who is great at recognition.

Again, these results are just a small portion of one of the most extensive and in-depth studies ever conducted on workplace productivity, involving 10 years of research by HealthStream Research and 200,000 interviews with managers and their employees. Employing a large team of expert researchers, analysts and consultants, HealthStream collaborated with us to quantify the connections between employee satisfaction, business outcomes and recognition.

The entirety of the study is obviously far too extensive to publish in just one white paper. Nevertheless, it proves that our theory was in fact correct—if you're tired of almost achieving your potential, if coming close isn't nearly good enough anymore, it is possible to shift things into high gear by using recognition to accelerate your organization's performance.

ARGUMENTS: IF RECOGNITION ACCELERATES PERFORMANCE, WHY HASN'T IT WORKED FOR OUR ORGANIZATION BEFORE?

The research also opened our eyes to recognition styles, perceptions and practices. What is recognition doing for many companies? Lying idle. Research shows that's exactly what the recognition accelerator has been doing in many organizations for far too long—waiting to ignite results. It's been overlooked, misapplied, misunderstood and largely untapped. The facts tell the whole story:

- 79% of employees who quit their jobs cite a lack of appreciation as a key reason for leaving.
- 65% of North Americans report that they weren't recognized even once last year.

As organizations struggle to find a way to cope in a global economic slowdown, the simple act of a leader recognizing a person in a meaningful and memorable way is the missing accelerator that can transform the speed and quality of performance. But it must be purpose-based recognition. And, it tops the list of things employees say they want most from their employers. When employees know their strengths and potential will be praised and recognized, they are significantly more apt to produce value.

WHAT ABOUT MONEY?

Ironically, money is not as powerful a reward as many people think. While pay and bonuses must be competitive to attract and retain talented employees, smaller amounts of cash—anything short of $1,000—are easily forgotten. One third of the people you give a cash award will use it to pay bills. After just a few months, one fifth won't have a clue where they spent it or how much they received. And, the more prevalent problem with cash is that the supply is limited and controlled. Pay, for example, is determined by the employee's experience, job type, higher corporate policy, location and other external factors outside your and your employees' control. If an employee is doing a fantastic job, you might be able to swing a 5% raise at the end of the year. Large bonuses tied to personal performance? They are typically reserved for mid- to upper-level leaders. Lower-level employees and professional staff typically receive a standard bonus amount, with very little variation from person to person.

And that leads us to the key finding of the 200,000-person study: the element that shows up time and again in every great workplace is a manager's ability to recognize employees' talents and contributions in a purposeful manner.

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

1. Have lower turnover rates
2. Achieve enhanced business results
3. And are seen as much stronger in what we call the Basic Four areas of leadership: Goal-setting, Communication, Trust and Accountability.

RETENTION ACCELERATED

Turnover can absorb resources at an astonishing rate. It is the most significant uncalculated expense in corporate America. Some estimates to replace a departing employee range up to a stunning 250% of that person's annual salary. Of course, if most of the people who left were poor performers, turnover would be a good thing. But that isn't the case. Especially in today's economy, organizations that fail to effectively recognize their employees are losing the workers they wish they could keep. Retaining outstanding performers is critical, whether in a recession or boom. Yet, some 75% of the U.S.workforce reports being not fully engaged on the job.

Common retention/engagement initiatives include:

- Tuition reimbursement
- Competitive vacation and holiday benefits
- Higher pay
- Better employee-selection methods

The results of such perks and methods on employee trust levels have been underwhelming at best.

So what is working?

- A Watson-Wyatt Reward Plan Survey of 614 employers with 3.5 million employees showed that the average turnover rate of employers with a clear reward strategy is 13% lower than that of organizations without one.
- Gallup's study of nearly five million employees reveals that an increase in recognition and praise in an organization can lead to lower turnover, higher customer loyalty and satisfaction scores, and increases in overall productivity.
- U.S. Department of Labor statistics show the number one reason people leave organizations is that they "don't feel appreciated."
- Research firm Watson and Wyatt has asked employees to identify "very significant" motivators of performance, and 66% said "appreciation."

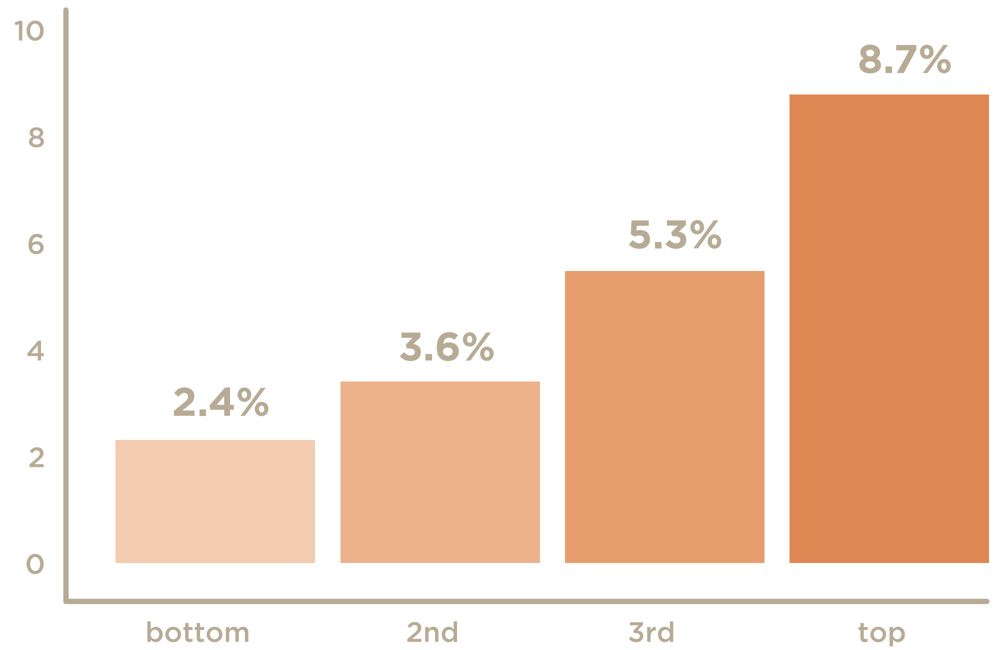
BUSINESS RESULTS ACCELERATED

Our partners HealthStream Research analyzed their data to test for a connection between effective recognition and business outcomes. From every angle and financial metric, investing in recognizing excellence is strongly associated with financial performance. This study included 26,000 employees at all levels in 31 organizations of varying sizes and profitability. In the study, employee respondents rated their level of agreement to the question: "My organization recognizes excellence." The responses by organization were averaged and grouped into four quarters. Those organizational results were then compared with these profitability measures:

1. Return on Equity,
2. Return on Assets,
3. Operating Margin

RECOGNITION AND RETURN ON EQUITY

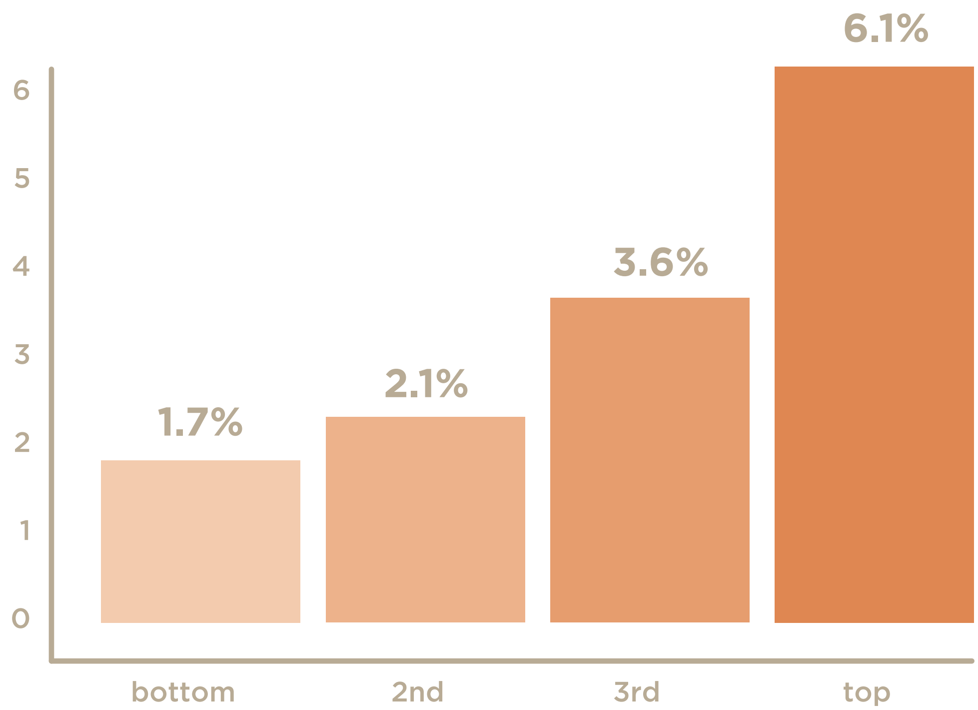
Return on Equity (ROE) is a critical measure that encompasses profitability, asset management and financial leverage. Calculated by taking the fiscal year's earnings and dividing them by the average shareholder's equity for that year, it is used as a general indication of how much profit a company is able to generate given the investment provided by its shareholders. According to the data, companies that effectively recognize excellence enjoy an ROE more than three times higher than the return experienced by firms that don't.



Return on Equity Performance by Quartile on
"My organization recognizes excellence."

RECOGNITION AND RETURN ON ASSETS

An equivalent connection is shown between recognition and Return on Assets (ROA), a fiscal year's earnings divided by total assets. This is a good measure of a firm's effectiveness in using the assets at hand to generate earnings. Companies that effectively recognize excellence enjoy an ROA more than three times higher than the return experienced by firms that don't.



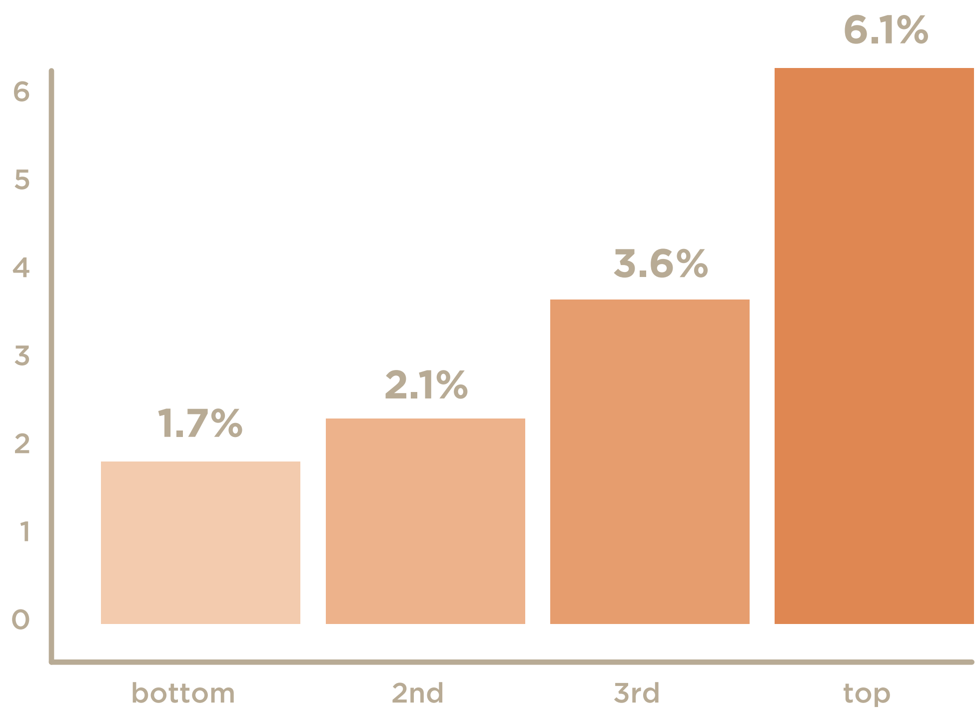
Return on Asset Performance by Quartile on
"My organization recognizes excellence."

RECOGNITION AND OPERATING MARGIN

Operating Margin is another measurement of an organization's profitability and efficiency. The ratio of operating income to sales, Operating Margin shows how much a company makes from each dollar of sales before interest and taxes. In general, businesses with higher Operating Margins tend to have lower costs and better gross margins. That gives them more pricing flexibility and an added measure of safety during tough economic times.

Of all the financial measurements, employee recognition impacts Operating Margin the most significantly. According to the data, companies in the highest quartile of recognition of excellence report an Operating Margin of 6.6%, while those in the lowest quartile report 1%.

Of this research, Karen Endresen, Ph.D. of HealthStream Research, said, "Up until this study, the link between recognition and financial performance was largely anecdotal. This study took recognition results from myth to reality—from the soft side of business to a proven business essential." The Wall Street Journal summarized this research as proving "a startling link between recognition and profitability."



Return on Asset Performance by Quartile on
"My organization recognizes excellence."

GREAT MANAGEMENT ACCELERATED

Recognition accelerates a leader's effectiveness. Consider the story of Dee Hansford, former head of Walt Disney World's cast recognition department. During a year of no pay raises or bonuses, the theme park saw a 15% rise in guest attendance and hired no additional staff. A formula for disaster, right? Actually, employee job satisfaction rose 15% that year. And Disney's annual report also showed a 15% increase in revenue. How? They may not have given money, but they trained their managers on how to deliver purposed-based recognition.

More complete case studies of great management accelerated can be found in *The Carrot Principle* and online at carrots.com.

For a manager, the bottom line is this: Great management is born when recognition is added to the other four characteristics of leadership—goal-setting, communication, trust, and accountability—it serves as an accelerator of employee performance and engagement.

GLOBAL PERFORMANCE ACCELERATED

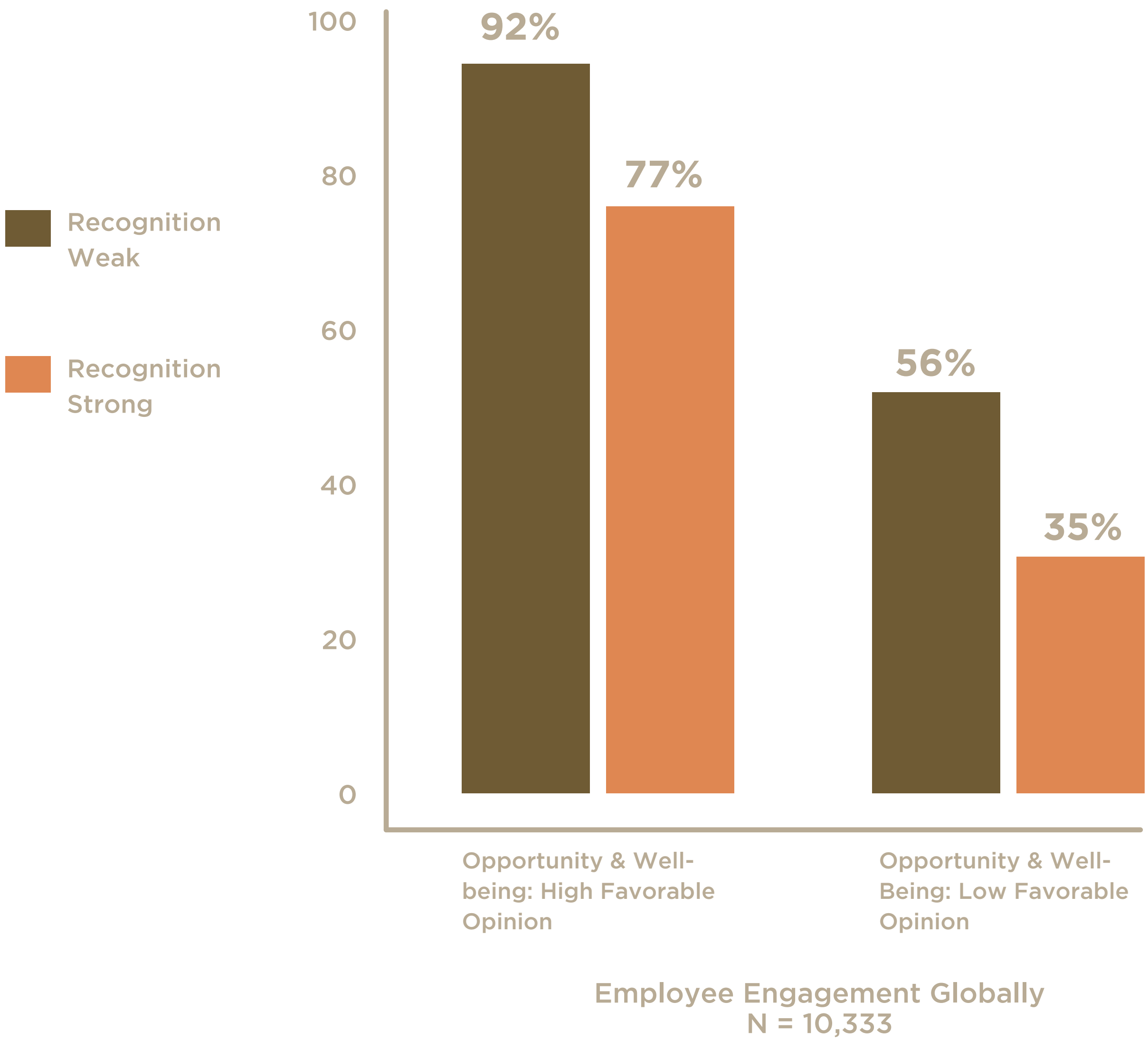
Is the power of recognition just a North American phenomenon?

In the fall of 2008, in the midst of the global economic meltdown, we asked Towers Watson, a leading global human capital consulting firm, to conduct a worldwide survey to test the assumption of the role of recognition and the Basic Four in driving employee engagement. We selected 13 countries ranging from major economies (Japan, Germany, the United States and the United Kingdom) to emerging markets (Brazil, Russia, India and China). Our sample size was 10,333 people, for a scientifically valid +/- 3% margin of error.

THE GLOBAL RESULTS

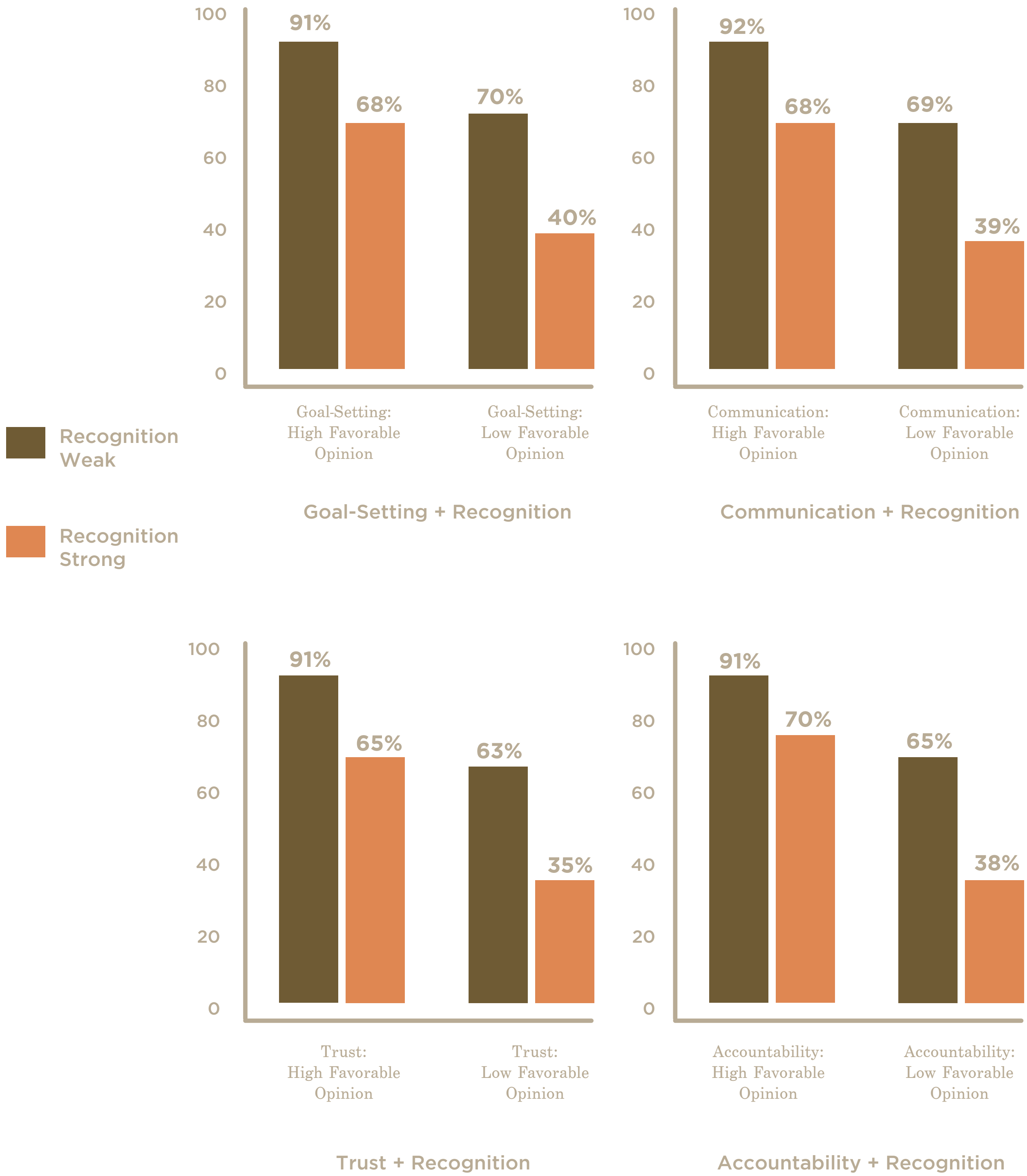
Our hunch was proven true. Recognition worldwide is just as much an accelerator as we had found in the United States and Canada. We were elated to find that wherever you are, recognition drives behaviors that are linked to employee engagement. But what was even more shocking was the magnitude of the accelerating power of recognition. In fact, from country to country, we found engagement scores as much as two or three times higher when a manager offered frequent, specific and timely recognition—numbers that the researchers at Towers Watson called not only statistically significant, but impressive in size and impact.

The graph that follows is just a small sample of our discoveries. The bar on the extreme right shows engagement levels in a work environment where employees feel little "opportunity" prospects and a poor sense of caring or "well-being" from their manager—two of the other main contributors to engagement. As you can see, only 35% of employees in such a work place are engaged. But notice what happens when recognition is added to even such a dismal workplace. The number of engaged employees moves up more than 20 percentage points to 56%. Still, what is more remarkable than making a significant impact on a bad situation is how recognition can transform a good workplace into a great culture—a robust 92% engagement rate.


Recognition Weak
Recognition Strong
100
80
60
40
20
0
92%
77%
56%
35%
Opportunity & Well-being: High Favorable Opinion
Opportunity & Well-Being: Low Favorable Opinion
Employee Engagement Globally
N = 10,333

RECOGNITION AND THE BASIC FOUR GLOBALLY

We were also pleased to see recognition accelerate the Basic Four of Leadership—Goal-setting, Communication, Trust and Accountability. Again, notice percentage differences comparing organizations that had scored high in the Basic Four to those who scored low in the Basic Four. No matter where recognition is stronger, the level of employee engagement significantly spikes.



In fact, throughout the entire study, the accelerating impact of recognition was remarkably consistent. And the results of combining recognition with the vital leadership characteristic of "Communication," for instance, was so dramatic, it spurred our Towers Watson researchers to note, "One of the best things a company could do with a poor communicating manager is to teach him how to appreciate his employees."

YOUR PERFORMANCE ACCELERATED

"Where do we start?" is typically the first question we get asked by managers who have either read our books or attended one of our keynote speeches. Patting an employee on the back for great work can initiate impressive changes. However, one thing both the North American and the global studies have shown us is that recognition training, education and practice are vital to achieving optimal acceleration of performance. Recognition done wrong will NOT offer the same immediate returns as purposed-based recognition. Recognition must be timely. It must be specific. And it must be frequent.

MESSAGE CONSISTENCY

One important factor when it comes to initiating a recognition program in your organization is the creation of message consistency. A keynote speaker can introduce the concept, use effective terminology, and explain the dos and don'ts. Having a strong consistent message is key to get all managers in your organization on the same page and the same timeline. And, if every manager, in every department is initiating purpose-based recognition at the same time, you will witness immediate acceleration company-wide. For information on our keynote speeches visit carrots.com/authors.

TRAINING

Although it sounds easy to start recognizing employees, we've found that the companies who are reaping the biggest results are those who train their managers. Recognition for the vast majority of managers is not intuitive, and most must overcome prejudices about the practice or simply be informed of how-to proceed. Think of the last home-repair project you decided to take on as a do-it-yourselfer. In theory, the project may not seem difficult, but a quick training session at your local home-store makes the task much easier to spearhead, and the results are far superior than if you had no training. For information on recognition training programs, visit carrots.com/training. Training for organizations is available via classroom, train-the-trainer or online formats.

EDUCATION AND REPETITION

Just as important as it is to recognize your employees frequently, so it is just as vital to brush up on your recognition skills and ideas. *The Carrot Principle,* and *A Carrot a Day* offer numerous tips on how to recognize employees. However, it's also important to choose a recognition champion within your organization. Create monthly meetings where managers, even from different departments can share stories about recognition—what worked with their teams and what might not work. Ask others in your profession what they do to recognize their employees. One piece of advice may not work inside every team or company, but it may inspire ideas. For information on our books, or to gather tips, reports, case studies or white papers focused on recognition visit carrots.com. Be sure to check out our Managers Tools section at carrots.com/managers_tools.

O.C. Tanner is the world leader at helping companies grow by appreciating people who do great work. Because celebrating great work inspires people to invent, to create, to discover. And when people are inspired, companies grow. Our performance awards, service awards, web-based recognition tools, and other incentive programs turn corporate goals into reality for more than 8,000 well-known customers worldwide.

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