INTRODUCTION

Breaking All the Rules

The greatest managers in the world do not have much in common. They are of different sexes, races, and ages. They employ vastly different styles and focus on different goals. But despite their differences, these great managers do share one thing: Before they do anything else, they first break all the rules of conventional wisdom. They do not believe that a person can achieve anything he sets his mind to. They do not try to help a person overcome his weaknesses. They consistently disregard the Golden Rule. And, yes, they even play favorites.

Great managers are revolutionaries, although few would use that word to describe themselves. This book will take you inside the minds of these managers to explain why they have toppled conventional wisdom and reveal the new truths they have forged in its place.

We are not encouraging you to replace your natural managerial style with a standardized version of theirs—as you will see, great managers do not share a "standardized style." Rather, our purpose is to help you capitalize on your *own* style, by showing you how to incorporate the revolutionary insights shared by great managers everywhere.

This book is the product of two mammoth research studies undertaken by the Gallup Organization over the last twenty-five years. The first concentrated on employees, asking, "What do the most talented employees need from their workplace?" Gallup surveyed over a million employees from a broad range of companies, industries, and countries. We asked them questions on all aspects of their working life, then dug deep into their answers to discover the most important needs demanded by the most productive employees.

Our research yielded many discoveries, but the most powerful was this: Talented employees need great managers. The talented employee may join a company because of its charismatic leaders, its generous benefits, and its world-class training programs, but how long that employee stays and how productive he is while he is there is determined by his relationship with his immediate supervisor.

This simple discovery led us to the second research effort: "How do the world's greatest managers find, focus, and keep talented employees?" To answer this question we went to the source—large companies and small companies, privately held companies, publicly traded companies, and public sector organizations—and interviewed a cross section of their managers, from the excellent to the average. How did we know who was excellent and who was average? We asked each company to provide us with performance measures. Measures like sales, profit, customer satisfaction scores, employee turnover figures, employee opinion data, and 360-degree surveys were all used to distill the best managers from the rest. During the last twenty-five years the Gallup Organization has conducted, tape-recorded, and transcribed one-and-a-half-hour interviews with over eighty thousand managers.

Some of these managers were in leadership positions. Some were midlevel managers. Some were front-line supervisors. But all of them had one or more employees reporting to them. We focused our analysis on those managers who excelled at turning the talent of their employees into performance. Despite their obvious differences in style, we wanted to discover what, if anything, these great managers had in common.

Their ideas are plain and direct, but they are not necessarily simple to implement. Conventional wisdom is conventional for a reason: It is easier. It is easier to believe that each employee possesses unlimited potential. It is easier to imagine that the best way to help an employee is by fixing his weaknesses. It is easier to "do unto others as you would be done unto." It is easier to treat everyone the same and so avoid charges of favoritism. Conventional wisdom is comfortingly, seductively easy.

The revolutionary wisdom of great managers isn't. Their path is much more exacting. It demands discipline, focus, trust, and, perhaps most important, a willingness to individualize. In this book, great managers present no sweeping new theories, no prefabricated formulae. All they can offer you are insights into the nature of talent and into their secrets for turning talent into lasting performance. The real challenge lies in how you incorporate these insights into *your* style, one employee at a time, every day.

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This book gives voice to one million employees and eighty thousand managers. While these interviews ground the book in the real world, their sheer number can be overwhelming. It is hard to imagine what one talented employee or one great manager sounds like. The following excerpt, from a single interview, captures something of both the tone and the content of our in-depth interviews.

As with all the managers we quote, we have changed his name to preserve his anonymity. We will call him Michael. Michael runs a fine-dining restaurant owned by a large hospitality company in the Pacific Northwest. Since Gallup first met Michael fifteen years ago, his restaurant has been in the company's top 10 percent on sales, profit, growth, retention, and customer satisfaction. From the perspective of his company, his customers, and his employees, Michael is a great manager.

Throughout the book you will hear Michael's comments echoed by other managers and employees. But rather than pointing out these echoes, we ask you to make the connections for yourself as you move through the chapters. For the moment we will simply let Michael speak for himself.

GALLUP: Can you tell us about your best team ever?

MICHAEL: You mean my whole team? I have at least thirty people working here.

GALLUP: Just tell us about the core of the team.

MICHAEL: I suppose my best team ever was my wait staff team a few years ago. There were four of them. Brad was about thirty-five, a professional waiter. Took great pride in being the best waiter in town. He was brilliant at anticipating. Customers never had to ask for anything. The moment the thought entered their mind that they needed more water, or a dessert menu, Brad was there at their shoulder, handing it to them.

Then there was Gary. Gary was an innocent. Not naive, just an innocent. He instinctively thought the world was a friendly place, so he was always smiling, cheerful. I don't mean that he wasn't professional, 'cause he was. Always came in looking neat, wearing a freshly pressed shirt. But it was his attitude that so impressed me. Everyone liked to be around Gary.

Susan was our greeter. She was lively, energetic, presented herself very well. When she first joined us, I guessed that she might lack a little common sense, but I was wrong. She handled the customers perfectly. On busy nights she would tell them pleasantly but firmly that last-minute reservations couldn't be accepted. During lunch some customers just want to get their order, pay, and leave. Susan would figure this out and let their server know that, with this particular customer, speed was of the essence. She paid attention, and she made good decisions.

Emma was the unspoken team builder in the crew. Quieter, more responsible, more aware of everyone else, she would get the team together before a busy Saturday night and just talk everyone through the need to put on a good show, to be alert, to help each other get out of the weeds.

These four were the backbone of my best team ever. I didn't really need to interfere. They ran the show themselves. They would train new hires, set the right example, and even eject people who didn't fit. For a good three years they *were* the restaurant.

GALLUP: Where are they now?

MICHAEL: Susan, Emma, and Gary all graduated and moved back east. Brad is still with me.

GALLUP: Do you have a secret to building great teams?

MICHAEL: No, I don't think there is a secret. I think the best a manager can do is to make each person comfortable with who they are. Look, we all have insecurities. Wouldn't it be great if, at work, we didn't have to confront our insecurities all the time? I didn't try to fix Brad, Susan, Gary, and Emma. I didn't try to make them clones of each other. I tried to create an environment where they were encouraged to be more of who they already were. As long as they didn't stomp on each other and as long as they satisfied the customers, I didn't care that they were all so different.

GALLUP: How did you get to know these people so well?

MICHAEL: I spent a lot of time with them. I listened. I took them out for dinner, had a couple of drinks with them. Had them over to my place for holidays. But mostly I was just interested in who they were.

GALLUP: What do you think of the statement "Familiarity breeds contempt?"

MICHAEL: It's wrong. How can you manage people if you don't know them, their style, their motivation, their personal situation? I don't think you can.

GALLUP: Do you think a manager should treat everyone the same?

MICHAEL: Of course not.

GALLUP: Why?

MICHAEL: Because everyone is different. I was telling you about Gary before, how great an employee he was. But I fired him twice. A couple of times his joking around went too far, and he really jerked my chain. I really liked him, but I had to fire him. Our relationship would have been ruined if I hadn't put my foot down and said, "Don't come in on Monday." After each time, he learned a little bit more about himself and his values, so I hired him back both times. I think he's a better person because of what I did.

My firm hand worked with Gary. It wouldn't have worked at all with Brad. If I even raised my voice with Brad, I would get the exact opposite reaction from the one I wanted. He would be crushed. He'd shut down. So when I disagree with him, I have to talk quietly and reason everything through with him quite carefully.

GALLUP: Isn't it unfair to treat people differently?

MICHAEL: I don't think so. I think people want to feel understood. Treating them differently is part of helping them feel unique. If I know that one of my people is the primary breadwinner, then as long as they perform, I will be more likely to give him better hours than someone who is a student. The student might be a little annoyed, but when I explain the situation to him, he usually calms down. Besides, he now knows that I will be paying attention to *his* personal situation when he needs a special favor. That's always a good message to send.

GALLUP: Other than Gary, have you ever fired anyone?

MICHAEL: Unfortunately, I have. Like most managers, sometimes I don't pick the right people and things start to fall apart.

GALLUP: What is your approach to firing an employee?

MICHAEL: Do it fast, the faster the better. If someone is consistently underperforming, you might think you are doing them a favor by waiting. You aren't. You're actually making matters worse.

GALLUP: You've been managing now for fifteen years. If you were going to give any advice to a new manager, what would it be?

MICHAEL: I am not an expert at this, you know. I'm still learning.

GALLUP: That's fine. Just tell us a couple of the ideas that have helped you over the years.

MICHAEL: Well . . . I suppose the first would be, pick the right people. If you do, it makes everything else so much easier.

And once you've picked them, trust them. Everyone here knows that the till is open. If they want to borrow $2 for cigarettes or $200 for rent, they can. Just put an IOU in the till and pay it back. If you expect the best of people, they'll give you the best. I've rarely been let down. And when someone has let me down, I don't think it is right to punish those who haven't by creating some new rule or policy.

Another thing would be, don't overpromote people. Pay them well for what they do, and make it rewarding, in every way, for them to keep doing what they are doing. Brad is a great waiter, but he would make a terrible manager. He loves to perform for an audience he respects. He respects the customers. He is less respectful of some of the new employees. As a manager, these employees would be his audience.

And especially important: Never pass the buck. Never say, "I think this is a crazy idea, but corporate insists." Passing the buck may make your little world easy, but the organism as a whole, sorry, the *organization* as a whole, will be weakened. So in the long run, you are actually making your life worse. Even worse are those who find themselves always promising things that don't come to pass. Since you never know what corporate might spring on you next, I recommend living by this simple rule: Make very few promises to your people, and keep them all.

That's it. That's my list.

GALLUP: Is there anything else that you would like to tell us about your experiences as a manager?

MICHAEL: Maybe just this: A manager has got to remember that he is on stage every day. His people are watching him. Everything he does, everything he says, and the way he says it, sends off clues to his employees. These clues affect performance. So never forget you are on that stage.

So that's Michael. Or, at least, that's an excerpt from Michael. During our research we heard from thousands of managers like Michael and from hundreds of thousands of employees who worked for managers like Michael. Some of Michael's opinions are commonly held—never pass the buck, make few promises and keep them all. But the majority of his testament is revolutionary—his desire to help all employees become more of who they already are; his willingness to treat each person differently; his desire to become close friends with his employees; his acceptance that he cannot change people, that all he can do is facilitate; his trusting nature. Michael, like all great managers, breaks the rules of conventional wisdom.

Like you, we know that change is a fact of modern life. We know that the business climate is in permanent flux and that different approaches to managing people wax and wane. However, in listening to managers like Michael and the employees they manage, we were searching for that which does not change. What will talented employees *always* need? What will great managers *always* do to turn talent into performance? What are the enduring secrets to finding, focusing, and keeping talented employees? What are the constants? These were our questions. On the following pages we present our discoveries.

CHAPTER 1

The Measuring Stick

- A Disaster Off the Scilly Isles
- The Measuring Stick
- Putting the Twelve to the Test
- A Case in Point
- Mountain Climbing

A Disaster Off the Scilly Isles

"What do we know to be important but are unable to measure?"

In the dense fog of a dark night in October 1707, Great Britain lost nearly an entire fleet of ships. There was no pitched battle at sea. The admiral, Clowdisley Shovell, simply miscalculated his position in the Atlantic and his flagship smashed into the rocks of the Scilly Isles, a tail of islands off the southwest coast of England. The rest of the fleet, following blindly behind, went aground and piled onto the rocks, one after another. Four warships and two thousand lives were lost.

For such a proud nation of seafarers, this tragic loss was distinctly embarrassing. But to be fair to the memory of Clowdisley Shovell, it was not altogether surprising. The concept of latitude and longitude had been around since the first century B.C. But by 1700 we still hadn't managed to devise an accurate way to measure longitude—nobody ever knew for sure how far east or west they had traveled. Professional seamen like Clowdisley Shovell had to estimate their progress either by guessing their average speed or by dropping a log over the side of the boat and timing how long it took to float from bow to stern. Forced to rely on such crude measurements, the admiral can be forgiven his massive misjudgment.

What caused the disaster was not the admiral's ignorance, but his inability to measure something that he already knew to be critically important—in this case longitude.

A similar drama is playing out in today's business world: many companies know that their ability to find and keep talented employees is vital to their sustained success, but they have no way of knowing whether or not they are effective at doing this.

In their book *The Service Profit Chain,* James Heskett, W. Earl Sasser, and Leonard Schlesinger make the case that no matter what your business, the *only* way to generate enduring profits is to begin by building the kind of work environment that attracts, focuses, and keeps talented employees. It is a convincing case. But the manager on the street probably didn't need convincing. Over the last twenty years most managers have come to realize their competitiveness depends upon being able to find and keep top talent in every role. This is why, in tight labor markets, companies seem prepared to go to almost any lengths to prevent employees' eyes from wandering. If you work for GE, you may be one of the twenty-three thousand employees who are now granted stock options in the company. Employees of AlliedSignal and Starbucks can make use of the company concierge service when they forget that their mothers need flowers and their dachshunds need walking. And at Eddie Bauer, in-chair massages are available for all those aching backs hunched over computer terminals.

But do any of these caring carrots really work? Do they really attract and keep only the most productive employees? Or are they simply a catch-all, netting both productive employees and ROAD warriors—the army's pithy phrase for those sleepy folk who are happy to "retire on active duty"?

The truth is, no one really knows. Why? Because even though every great manager and every great company realizes how important it is, they still haven't devised an accurate way to measure a manager's or a company's ability to find, focus, and keep talented people. The few measurements that are available—such as employee retention figures or number of days to fill openings or lengthy employee opinion surveys—lack precision. They are the modern-day equivalent of dropping a log over the side of the boat.

Companies and managers know they need help. What they are asking for is a simple and accurate measuring stick that can tell them how well one company or one manager is doing as compared with others, in terms of finding and keeping talented people. Without this measuring stick, many companies and many managers know they may find themselves high and dry—sure of where they want to go but lacking the right people to get there.

And now there is a powerful new faction on the scene, demanding this simple measuring stick: institutional investors.

Institutional investors—like the Council of Institutional Investors (CII), which manages over $1 trillion worth of stocks, and the California Public Employees Retirement System (CalPERS), which oversees a healthy $260 billion—define the agenda for the business world. Where they lead, everyone else follows.

Institutional investors have always been the ultimate numbers guys, representing the cold voice of massed shareholders, demanding efficiency and profitability. Traditionally they focused on hard results, like return on assets and economic value added. Most of them didn't concern themselves with "soft" issues like "culture." In their minds a company's culture held the same status as public opinion polls did in Soviet Russia: superficially interesting but fundamentally irrelevant.

At least that's the way it used to be. In a recent about-face, they have started to pay much closer attention to how companies treat their people. In fact, the CII and CalPERS both met in Washington to discuss "good workplace practices . . . and how they can encourage the companies they invest in to value employee loyalty as an aid to productivity."

Why this newfound interest? They have started to realize that whether software designer or delivery truck driver, accountant or hotel housekeeper, the most valuable aspects of jobs are now, as Thomas Stewart describes in *Intellectual Capital,* "the most essentially human tasks: sensing, judging, creating, and building relationships." This means that a great deal of a company's value now lies "between the ears of its employees." And this means that when someone leaves a company, he takes his value with him—more often than not, straight to the competition.

Today more than ever before, if a company is bleeding people, it is bleeding value. Investors are frequently stunned by this discovery. They know that their current measuring sticks do a very poor job of capturing all sources of a company's value. For example, according to Baruch Lev, professor of finance and accounting at New York University's Stern School of Business, the assets and liabilities listed on a company's balance sheet now account for only 60 percent of its real market value. And this inaccuracy is increasing. In the 1970s and 1980s, 25 percent of the changes in a company's market value could be accounted for by fluctuations in its profits. Today, according to Professor Lev, that number has shrunk to 10 percent.

The sources of a company's true value have broadened beyond rough measures of profit or fixed assets, and bean counters everywhere are scurrying to catch up. Steve Wallman, former commissioner of the Securities and Exchange Commission, describes what they are looking for:

> If we start to get further afield so that the financial statements . . . are measuring less and less of what is truly valuable in a company, then we

> start to lower the relevance of that scorecard. What we need are ways to measure the intangibles, R&D, customer satisfaction, *employee satisfaction.* (italics ours)

Companies, managers, institutional investors, even the commissioner of the SEC—everywhere you look, people are demanding a simple and accurate measuring stick for comparing the strength of one workplace to another. The Gallup Organization set out to build one.

The Measuring Stick

"How can you measure human capital?"

What does a strong, vibrant workplace look like?

When you walk into the building at Lankford-Sysco a few miles up the road from Ocean City, Maryland, it doesn't initially strike you as a special place. In fact, it seems slightly odd. There's the unfamiliar smell: a combination of raw food and machine oil. There's the decor: row upon row of shelving piled high to the triple ceilings, interspersed with the occasional loading dock or conveyor belt. Glimpses of figures bundled up in arctic wear, lugging mysterious crates in and out of deep freezers, only add to your disquiet.

But you press on, and gradually you begin to feel more at ease. The employees you run into are focused and cheerful. On the way to reception you pass a huge mural that seems to depict the history of the place: "There's Stanley E. Lankford Jr. hiring the first employee. There's the original office building before we added the warehouse. . . ." In the reception area you face a wall festooned with pictures of individual, smiling faces. There are dozens of them, each with an inscription underneath that lists their length of service with the company and then another number.

"They are our delivery associates," explains Fred Lankford, the president. "We put their picture up so that we can all feel close to them, even though they're out with our customers every day. The number you see under each picture represents the amount of miles that each one drove last year. We like to publicize each person's performance."

Stanley Lankford and his three sons (Tom, Fred, and Jim) founded the Lankford operation, a family-owned food preparation and distribution company, in 1964. In 1981 they merged with Sysco, the $15 billion food distribution giant. An important proviso was that Tom, Fred, and Jim would be allowed to stay on as general managers. Sysco agreed, and today all parties couldn't be happier with the decision.

The Lankford-Sysco facility is in the top 25 percent of all Sysco facilities in growth, sales per employee, profit per employee, and market penetration. They have single-digit turnover, absenteeism is at an all-company low, and shrinkage is virtually nonexistent. Most important, the Lankford-Sysco facility consistently tops the customer satisfaction charts.

"How do you do it?" you ask Fred.

He says there is not much to it. He is pleased with his pay-for-performance schemes—everything is measured; every measurement is posted; and every measurement has some kind of compensation attached. But he doesn't offer that up as his secret. He says it is just daily work. Talk about the customer. Highlight the right heroes. Treat people with respect. Listen.

His voice trails off because he sees he is not giving you the secret recipe you seem to be looking for.

Whatever he's doing, it clearly works for his employees. Forklift operators tell you about their personal best in terms of "most packages picked" and "fewest breakages." Drivers regale you with their stories of rushing out an emergency delivery of tomato sauce to a restaurant caught short. Everywhere you turn employees are talking about how their little part of the world is critical to giving the customer the quality that is now expected from Lankford-Sysco.

Here are 840 employees, all of whom seem to thrill to the challenge of their work. Whatever measurements you care to use, the Lankford-Sysco facility in Pocomoke, Maryland, is a great place to work.

You will have your own examples of a work environment that seems to be firing on all cylinders. It will be a place where performance levels are consistently high, where turnover levels are low, and where a growing number of loyal customers join the fold every day.

With your real-life example in mind, the question you have to ask yourself is, "What lies at the heart of this great workplace? Which elements will attract only *talented* employees and keep them, and which elements are appealing to every employee, the best, the rest, and the ROAD warriors?"

Do talented employees really care how empowered they are, as long as they are paid on performance, such as at Lankford-Sysco? Perhaps the opposite is true; once their most basic financial needs have been met, perhaps talented employees care less about pay and benefits than they do about being trusted by their manager. Are companies wasting their money by investing in spiffier work spaces and brighter cafeterias? Or do talented employees value a clean and safe physical environment above all else?

To build our measuring stick, we had to answer these questions.

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Over the last twenty-five years the Gallup Organization has interviewed more than a million employees. We have asked each of them hundreds of different questions, on every conceivable aspect of the workplace. As you can imagine, one hundred million questions is a towering haystack of data. Now, we had to sift through it, straw by straw, and find the needle. We had to pick out those few questions that were truly measuring the core of a strong workplace.

This wasn't easy. If you have a statistical mind, you can probably hazard a pretty good guess as to how we approached it—a combination of focus groups, factor analysis, regression analysis, concurrent validity studies, and follow-up interviews. (Our research approach is described in detail in the appendix.)

However, if you think statistics are the mental equivalent of drawing your fingernails across a chalkboard, the following image may help you envision what we were trying to do.

In 1666 Isaac Newton closed the blinds of his house in Cambridge and sat in a darkened room. Outside, the sun shone brightly. Inside, Isaac cut a small hole in one of the blinds and placed a glass prism at the entrance. As the sun streamed through the hole, it hit the prism and a beautiful rainbow fanned out on the wall in front of him. Watching the perfect spectrum of colors playing on his wall, Isaac realized that the prism had pried apart the white light, refracting the colors to different degrees. He discovered that white light was, in fact, a mixture of all the other colors in the visible spectrum, from dark red to deepest purple; and that the only way to create white light was to draw all of these different colors together into a single beam.

We wanted our statistical analyses to perform the same trick as Isaac's prism. We wanted them to pry apart strong workplaces to reveal the core. We could then say to managers and companies, "If you can bring all of these core elements together in a single place, then you will have created the kind of workplace that can attract, focus, and keep the most talented employees."

So we took our mountain of data and we searched for patterns. Which questions were simply different ways of measuring the same factor? Which were the best questions to measure each factor? We weren't particularly interested in those questions that yielded a unanimous, "Yes, I strongly agree!" Nor were we swayed by those questions where everyone said, "No, I strongly disagree." Rather, we were searching for those special questions where the most engaged employees—those who were loyal *and* productive—answered positively, and everyone else—the average performers and the ROAD warriors—answered neutrally or negatively.

Questions that we thought were a shoo-in—like those dealing with pay and benefits—fell under the analytical knife. At the same time, innocuous little questions—such as "Do I know what is expected of me at work?"—forced their way to the forefront. We cut and we culled. We rejigged and reworked, digging deeper and deeper to find the core of a great workplace.

When the dust finally settled, we made a discovery: Measuring the strength of a workplace can be simplified to twelve questions. These twelve questions don't capture everything you may want to know about your workplace, but they do capture the *most* information and the most *important* information. They measure the core elements needed to attract, focus, and keep the most talented employees.

Here they are:

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission/purpose of my company make me feel my job is important?
9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, has someone at work talked to me about my progress?
12. This last year, have I had opportunities at work to learn and grow?