

'You're All Doing Very Well'

The ideal performance management system focuses your employees on organisational results, and improves productivity. The real performance management system is often regarded as HR form-filling.

Why is it so hard to move performance management into that credible space, alongside sales and production reports?

Define Performance

Performance is a broad term, and performance management systems often try to be all things to all people. While this reflects the best intentions in the world, it dilutes the ability of the average performance management system to influence and reflect outcomes.

All but the most altruistic shareholder thinks of performance in terms of profit, driven by productivity. While it improves, they are unlikely to care much about costs and are happy to accept their share of the rewards. Media reports abound of explosive increases in senior executive packages, and especially incentives, but it's rare that a shareholders' meeting refuses to sanction a package. Productivity is equally relevant in the public sector, with residents and taxpayers considered as shareholders.

However, in the face of poor results (i.e. decreased productivity), when even austere establishment newspapers run disapproving reports of CEOs' colossal incomes, attitudes change. Entwined with stories of our somewhat battered global economy are regular emotive reminders of the remuneration and retirement packages of ex-CEOs, from e.g. EMI in the UK, Citibank in the US and Centro in Australia, highlighted against spectacularly disastrous 2007 performances.

Employees should be equally interested in profit and productivity, and we don't think you do them any long-term favours distancing them from the "P" words.

Focus on Individual (or team) Contribution to Organisational Performance

It's hard to find any reason to pay more and more (or, in fact, anything) to a person who has failed to perform. However, we don't believe the media hype surrounding a few examples should deter organisations from recognising and rewarding people who improve organisational productivity. Instead, it should encourage a stronger focus on defining productivity and the difference an individual, or team, if that suits your organisation better, actually can and does make.

Once we take the unfashionable but practical view that performance equates to productivity, performance management is simple. What does that person or team do to improve productivity? In the case of the CEO, once you have determined the key criteria (e.g. increase short- and medium-term revenue, profit, return on investment, market share), the link to results is easy to see, easy to measure, and easy to compare to the company's peer group.

Cascade, cascade, cascade

A good CEO will drive an organisation to better results. Above average improvements (versus peers) – it's likely the CEO had something to do with it. Below average – it's also likely the CEO had something to do with it. While the mechanics of these measures and rewards can be complicated, the basic premise is not.

Line management roles with a revenue or profit budget lend themselves easily to measurable performance outcomes. Also easily measured are quantifiable service outcomes, such as scheduled cost-effective maintenance programmes. Dollars or downtime may be balanced with management attributes, but these roles are there to improve profitability, and should be understood as such. Customer service or client satisfaction is more complicated, but still not impossible to measure. In any

case, these all, in the long-term, roll on to affect revenue or profit, as customers vote with their feet. Considering both may be double-counting and confusing.

Organisations tend to find it harder to link support roles, sometimes many layers down from the CEO, working in relative isolation somewhere in the office, to productivity. These are the plaintive souls who say “I don’t really see how what I do makes any difference to anyone, or has any effect on the organisation”. This is quite a scary thought. If your employees’ targets are not related to your company’s targets, what are they doing? If they are related, it would be kind to demonstrate this.

If your business planning process is robust, you can eliminate this isolation. Strong links between remuneration and productivity therefore require excellent target-setting.

Discuss Performance, Productivity and Profit

Even where targets are well cascaded, performance management systems below senior management level often focus on productivity in the most apologetic way. Ironically, one reason for this is its link with remuneration. Another is management style.

There is an interesting tipping point in performance assessment. Unless an employee’s performance is blatantly terrible, managers prefer to emphasise the positives. If actual results are not satisfactory, the availability of other quadrants on a Balanced Scorecard means they can rush through this as fast as possible and move thankfully on to behaviours and development needs, hoping things will just get better. (If it doesn’t they will rush to you in HR demanding that you sack this person immediately, and complain bitterly when you explain that their last acceptable performance review makes this quite difficult).

As well, our experience is that virtually all managers in New Zealand want their employees to receive some increase every year. While things are good, managers can get away with this. When things tighten up, this may be impossible.

Even if this profile reflects your own managers, it is possible for them to fruitfully combine a conversation about development needs with a discussion of results. This may work better if you split the timing of your developmental discussions away from your results-based assessments.

Discuss development needs part way through the year, in the light of results to date. Employees can gently but firmly be made to understand that they need to hit their targets. They will be more likely to be genuinely interested in improving their performance in order to do so, and are also likely to understand that the personal development aspect of their balanced scorecard as an integrated part of their job. They are less likely to be defensive about their results, as they will not be involved in a punitive or remuneration-oriented discussion.

At the end of the year, they will either have reached or not reached their targets, and this should be a major consideration in their remuneration review. The bottom line – measure and reward people’s contribution to your company productivity, and you and your CEO will be on the same wavelength.