

Pay and Performance News

The Newsletter of Altura Consulting Group LLC

Performance management. A process that can offer genuine benefits to an organization and yet such a difficult thing to do well. In this issue, we examine the challenges of performance management in more depth.

Performance Management: It's Not Performance Appraisal

Just for the record, these terms are not synonymous. A performance management process may include performance appraisal as one of its components, but it is bigger, broader and, ultimately, different in its focus. The purpose of performance management is not to "rate" people. The purpose of performance management is to create an environment where successful performance is a high probability outcome.

In distinguishing between performance management and performance appraisal, we find a helpful analogy in the quality movement. Traditional performance appraisal is really "quality control" by its nature, with the supervisor or manager playing the role of the passive "end of line" inspector. Performance management moves us into the arena of TQM or "quality assurance", where the system supports the leader in playing a dynamic, proactive role as performance coach.

The Practice of Good Management

At its essence, performance management is simply the practice of good management. It involves setting and communicating performance expectations to employees. It involves providing the feedback, coaching and support necessary to help employees reach those expectations. And, yes, it involves reviewing and recognizing performance results.

Good management matters. It takes time, skill and a certain dedication, but it makes a difference. A recent McKinsey study confirms for us that good management has a measurable impact on financial performance. In this international study, 100 companies were awarded a score relative to their use of three management techniques: performance management, talent management (which attracts and retains high caliber people) and lean manufacturing (which minimizes waste). The scores ranged from 1 (which meant it wasn't used) to 5 (reflecting best practice). Each company's score was then compared with several key financial metrics, the

most important being Return on Capital Employed (ROCE).

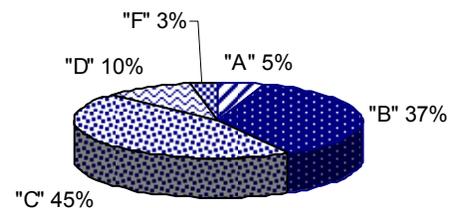
The findings? The correlation between a company's management practices and its financial performance was significant. A one point improvement in performance across all three management techniques, for example, generated a 5.1% increase in ROCE. Over the five year period studied (1995-2000), this one point improvement would result in the creation of \$700 billion in value across the companies studied.

Effective Performance Management is Tough

So, if good management (as reflected in a sound performance management process) can have such a significant impact on the bottom line, why isn't every organization at a best practice level? The answer is simple: practicing effective performance management is tough.

The truth of this statement was born out in a June 2004 study conducted by WorldatWork. Close to 60% of the 414 organizations participating in the study gave their own performance management systems a "C" or worse grade in terms of effectiveness, as illustrated in the chart below.

Overall, what letter grade would you give your organization's performance management system?



According to study participants, one of the biggest reasons for this shortfall is that organizations still view performance management as an HR process primarily used to make reward decisions, as opposed to a business critical process for driving improved performance results. The barriers to effective performance management cited most frequently by the participants are highlighted in the following chart.

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Effective Performance Management is Tough

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Barriers to Effective Performance Management

	% of Orgs
Organization views performance management as an HR process rather than a process for driving improved business results	30%
Lack of a performance-driven culture	28%
Process too burdensome & time-consuming	26%
Lack of buy-in by managers & employees	25%
Lack of ownership at top of the organization	21%

Making Performance Management Work: Some Best Principles

What is our take away from this research, which reinforces for us both importance of and the challenges around effective performance management? Hopefully, armed with these insights, we can go forward to develop pragmatic and informed approaches to managing employee performance. To support us in this task, following are a few “best principles” — culled from these studies, a host of others and our own experience — for making performance management work.

Participative Program Design

To be successful, performance management programs *must* be designed and implemented in a way that fits an organization’s business environment, management style, jobs, culture and values (whether the latter have been formally articulated or not). The best way — maybe the only way — to accomplish this is through the use of a design team that can bring the perspectives of all employees to the design table.

By giving employees (via their design team representatives) a voice in the design of the performance management program, you more likely to end up with a program well-suited to your organization. You are also more likely to find yourself facing acceptance and enthusiasm — rather than resistance — at roll-out time.

Program Focus

As the research presented earlier reinforces for us, one of the biggest complaints about performance management is that the process is “burdensome and time-consuming”. The design challenge, therefore, is determining and prioritizing objectives for the program. The enemy we must overcome is the temptation to load up the performance management process with all the good things we know it can do for us. Program success comes as a result of focus, and doing a few things well.

Employee Accountability

Because effective performance management does require a certain commitment of time and energy, there is often resistance to it from the one group which traditionally has carried the heaviest part of that “burden”: supervisors and managers. One way to address this obstacle is to shift some of the role and responsibilities traditionally held by the supervisor or manager — such as initiating the process or collecting feedback data — to the employees. Like consumer-driven healthcare, this moves some of the power — and the accountability — for performance management to the key customer, the employee.

Commitment from the Top

One of the factors most highly correlated with performance management success is commitment to the program from the top of the house. Doing performance management well requires a certain dedication, and often changes in behavior and communication practices, particularly from supervisors and managers. These supervisors and managers will want to be assured that the organization really “means it”, when a performance management program is implemented—and they will be watching carefully for signals that the leadership group has either embraced the program or is merely paying it lip service.

Just-In-Time Training and Support

Few of us were born with all the skills necessary to do performance management well. Experience has taught us that short bursts of training, delivered just before the skills and information will be needed, is the best way to prepare everyone involved for a successful experience.

Altura Consulting Group LLC provides management consulting services with a primary focus on compensation and performance management solutions. We work with clients in the areas of executive and sales compensation, developing and implementing base salary systems and structures, developing and implementing incentive/bonus plans, designing performance management programs, and providing competitive market pay information.