



Best Practices

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Driving Performance

What does performance management mean to you? What's the difference between managing performance and driving performance? What does it mean to create a performance-driven organization?

Becoming performance driven is about motivating the entire workforce—including all employees, partners, suppliers, agents and others inside and outside the enterprise—to work together to execute the organization's strategy.

Yet, there are generally two very distinct approaches to performance management—one focused on the performance of the organization and the other focused on the performance of its people. The approaches are further differentiated depending on the part of the organization (sales, finance or human resources) to which someone belongs.

If we were looking for a standardized approach—a performance management benchmark against which all organizations could be measured—it's nowhere to be found. It turns out there are more than a few distinct views of performance management, each based on the corner of the organization from which it originates.

Within any given corner, one or more of these views looks perfectly reasonable and the others look irrelevant at best. Indeed, performance management has become the proverbial elephant described by blind men. They all touch a different part of the elephant, they all think the elephant is something different, and they all describe it based on the part they touch.

Missing Linkages

The challenge for organizations that want to become performance driven is to adopt an approach that unifies the two sides of performance management (the organization and the individual) and addresses five linkages that are missing (or at best, marginally addressed) in the various approaches to performance management.

To become performance driven, an organization must link:

- The objectives of the organization with the goals of its individuals.
- The budgets and resources of the organization with the objectives of the organization.
- The measurement of past performance with adjustments to the future direction.
- The information in finance with the information in human resources.
- The pay of each person in the organization with that individual's performance.

Linking the Organization and the Workforce

Many organizations enthusiastically formulate and communicate a new strategy but somehow fail to translate it into reality. The link between strategy formulation and execution is the workforce, and the key lies in translating the overall strategy into tasks and responsibilities for individual employees.

For every department and each individual to have a clear sense of how their respective activities fit into the organization's overall purpose, organizational objectives must be broken down into sets of individual goals. These goals must be of sufficient detail to enable managers to pick the right people and provide the right direction for them to achieve the objectives.

Linking Budgets, Resources and Objectives

Any objective, to have a chance of being achieved, needs to be allocated appropriate and sufficient resources. Nothing is more disconcerting to managers than being given objectives to meet, but an insufficient budget to do the job.

Linking Past and Future

Organizations often measure only past performance, which is not an accurate predictor of future success. Instead of merely analyzing the past to see whether you are on course, you need to proactively steer your course toward the future. That means using past performance to change future behavior and making frequent adjustments to your future direction to keep people on the most efficient path to success.

Linking Finance and Human Resources

Finance and human resources have differing views of performance management. Finance is concerned with numbers—revenue, profits and costs—and with meeting organizational targets. Human resources is about people and the administrative processes associated with them. It is about employee satisfaction and motivation and performance appraisals.

The views of finance and HR need to come together. Finance needs to look at the smaller picture and think more about people, whereas HR needs to take a bigger picture view and develop its administrative role into a proactive, strategic one. For example, in employee performance reviews, individual evaluations can be tied to company progress toward organizational objectives, including financial ones. Unless organizational priorities are reinforced in the performance appraisal process, employees will have little incentive to stray from doing only those things they do best, regardless of whether they are strategic.

Linking Pay and Performance

Perhaps nothing is as important for developing an effective approach to performance management as paying for performance. Paying for performance sends a clear message from management that employees' contributions are valued and appreciated.

Although most organizations base sales force compensation on levels of performance, pay-for-performance needs to move beyond the sales force to all employees. To be effective, a pay-for-performance program needs to link the pay of each individual in the workforce—including employees, suppliers, vendors and partners—with their individual performance. To ensure that the program is taken seriously and is not merely lip service toward the pay-for-performance ideal, sufficient pay needs to be at risk.

The Core Components of Performance Management

A unified approach to performance management—one that addresses each of the five missing linkages and ties together the organizational and individual aspects— consists of the following components:

- Align the objectives, resources and budgets of the different parts of the organization and the goals, opportunities and quotas of individuals.
- Measure organizational and individual performance.
- Reward individuals for performance.
- Report organizational and individual performance.
- Analyze organizational and individual strategy execution..

Align

An organization consists of business units, departments and divisions, each with its own set of objectives. Alignment must exist between the objectives of the various organizational entities and the strategic objectives of the organization itself. And that alignment must be frequently adjusted — at least quarterly, if not monthly — in response to new objectives, changes in the business environment or problems with achieving current objectives.

Aligning employees involves cascading strategic objectives down to all levels of the workforce. This enables members of the workforce to understand how their performance will be measured and evaluated, and also how their efforts tie into the overall strategy. This linkage between organizational objectives and individual goals and activities is at the core of effective performance management.

Measure

Although all organizations measure performance, most focus on financial metrics and meeting government regulations. An organization that only measures historical financial performance, however, is focusing on the past rather than driving future performance.

To drive performance, you must link your organizational objectives and individual employee goals — and their associated metrics of performance — with the measurement of actual organizational and individual performance. Measurement is of critical value in linking pay to performance and in laying out a feedback mechanism that allows you to adjust your strategy and tactics over time.

Measuring individual performance through a tight link to goal achievement defines expectations for your employees, thus providing an equitable and predictable basis for accountability. It also provides a way for management to assess employee capabilities. Such measurement provides a consistent and objective basis for determination of employee rewards.

Frequent, objective measurement enables you to assess whether your organization is on the right path or needs to adjust objectives—and the goals of individual employees—to drive desired behaviors.

Reward

Linking performance measurement to rewards is the power steering that enables the organization to drive the behaviors of the entire workforce and keep them on the straightest path to achieving the organization's strategic objectives.

All employees in the organization should be on a variable pay plan that is linked to their individual performance. Although rewarding people based only on individual performance may make for an overtly competitive culture, teamwork and collaborative effort can be factored in to preclude unhealthy competition.

Report

Reporting is about providing timely information to executives, managers and individuals about the performance of the organization and its people. However, for most organizations reporting is more a matter of compliance with government regulations.

Effective reporting allows you to see the degree of objective and goal achievement and provides a feedback mechanism that allows you to adjust your strategy, tactics, objectives and goals over time.

Analyze

Analysis answers the why and how of performance management. The purpose of analysis is to initiate change—changes in strategy, in tactics, in personnel, in budgets and many other aspects of managing the enterprise.

Analysis of organizational performance provides actionable, timely, meaningful information that enables the organization to take corrective action proactively and to learn and adapt rapidly. Analysis of individual performance enables managers to help employees understand how specific behaviors affect the company's performance, identify trouble points in processes that are restricting individual performance and make the best use of resources by optimally aligning people and activities.

Driving Performance

In essence, effective performance management is when every part of the organization and every person is drumming to the same beat and marching in step.

For many organizations, becoming performance-driven might cause a cultural upheaval that, at least in its early stages, results in turmoil, a perception of chaos and a lot of discomfort. It can trigger turnover of long-time employees who do not like to be held accountable for goal achievement and who feel entitled to a certain level of pay regardless of their performance. And it might cost money as you make the initial investments.

But with the leadership and commitment of senior management, becoming performance-driven will lead to dramatic improvements in performance in financial terms, with respect to employee productivity and morale and in the flexibility to quickly adapt to change. The effort will be well worth it.

Article from July 2006 Workforce Performance Solutions (www.wpsmag.com) by Mark Stiffler, founder, president and CEO of Synogy Inc. Mark is also the author of "Performance: Creating the Performance-Driven Organization."