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Performance Management: Are We Failing the People Who Matter Most?

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Most mid-sized and larger corporations, as well as many government departments and non-profit organizations, have installed performance management systems over the last few years. It's become the orthodoxy, but like most things that become standard practice, it's worth standing back and asking whether performance management is fulfilling the promises made around it. This white paper, the second in a series by Adrian Savage, asks if performance management systems are really helping organizations grow to achieve their full potential.

Although performance management systems have become a best practice, I note a great deal of dissatisfaction with what they are actually producing. These systems are failing exactly the people who matter most to companies: the A and B performers, and especially the A and A+ pool of top talent. It's easy to dismiss this as evidence of poor design or imperfect implementation. But while it's very hard to fault the intention behind performance management - to set clear performance standards and find ways of bringing everyone up to those standards as a minimum - the devil lies in the details. If performance management systems are reducing levels of unsatisfactory performance, they are also reducing levels of outstanding performance - often at a faster rate.

Serving Three Masters

Performance management systems tend to have three main objectives:

1. To focus on poor performance and raise it to the accepted norm;
2. To act as the sifting process for promotions and top talent programs; and,
3. To provide data for remuneration.

Here's the first problem: It's very tough to design a procedure to do such different jobs equally well. When you observe any specific

system, it's usually fairly easy to pick out which of these three objectives was the primary reason behind it. It'll probably do a good job against one objective but produce much less satisfactory results against the other two. Systems that focus primarily on improving poor performance need to motivate and develop - something that is not easily compatible with decisions on who gets a pay rise. Those that focus on fair remuneration raise all kinds of emotions and concerns in the "users" - the employees whose performance is being managed - that are not compatible with gaining objective data for development or coaching. Keeping decisions on pay separate from information on training and development requirements takes some pretty fancy footwork. Individuals find it hard to believe that being asked to take on programs to improve their performance won't automatically link to their next salary review.

Problems or Opportunities?

Problems tend to claim our attention immediately. It's human nature to worry first about the people who are seen to be holding everyone else back. However even-handed the rhetoric of a performance management system between raising poor performance and encouraging outstanding people, in practice it's the problems that get the closest attention. For success in business, what you pay people and

how many of them you employ are both much less important than the productivity you get. The amount that your best people earn for you is by far the most crucial element.

Trying to help lesser contributors raise their performance is a laudable activity. There's no reason at all why managers shouldn't strive to increase the results from poor performers and many reasons why they should. But if you ran a racing stable, where would you look to achieve success? Would you concentrate on your winners or spend time and energy trying to get the horses that always came in last to improve a little? Small improvements by poor performers, however satisfying for them and those who are helping them, will never deliver the same returns as small improvements by outstanding performers. If I'm performing at only 80 percent of the required level, a 10 percent performance boost still leaves me at 90 percent - 10 percent below what's needed. If I'm already at 100 percent the same relative increase takes me to 110 percent.

The only way you'll make more from increasing the performance of those at the bottom of the range, rather than helping outstanding people do even better, is if most of your people are poor performers. It's a simple matter of arithmetic. To gain a specific total, you can either add lots of small numbers or a few bigger ones.

Suppose that you have 100 people who generate combined revenues of \$20 million: an average of \$200,000 per person. Assume that the lowest performing group (the bottom 20 percent) produce an average revenue of only \$100,000 each or \$2 million. The top 20 percent produce \$300,000 each in revenue, or \$6 million. The remaining 60 people produce the same average as the whole group: \$200,000 in revenues each, making up the last \$12 million of total revenues.

Traditional performance management approaches would start by doing something

about the poor performance of the lowest 20 people. Let's suppose you do that and that you're wildly successful. You manage to bring their revenue generating capability up to the previous average. That bottom group shows a 100 percent increase in performance and now produces \$4 million. You've increased revenues by \$2 million (10 percent) and have every right to feel very pleased with yourself.

But suppose you took the opposite tack and decided to work on improving the performance of those already giving an above average return. I'm going to weight the odds against you and assume that you can only increase their performance by 50 percent, not the 100 percent increase in the previous example. So the top group of 20 people now produce revenues on average of \$450,000 - a 50 percent increase. That means this high performing group now has total revenues of 20 times \$450,000, or \$9 million. Your efforts have increased overall revenues by \$3 million - 15 percent, not 10 percent.

How much more likely do you think it is that you could get the top performers to increase their productivity by 50 percent, compared with getting the worst performers to increase theirs by 100 percent? Twice as likely? Three times? I'd say more like ten times or even more. There are no prizes for guessing where the smart money is going.

Cui Bono?

The legal term for "who benefits?" is very apt in this context. The exact management tools that serve well in trying to improve poor performance are a handicap in motivating and helping good or outstanding performers. What you need to convert a C performer into a B will probably convert a B into a C, and drive an A performer to leave.

We all know the techniques: setting tight standards and monitoring them closely; providing peer feedback and stimulating internal competition; providing a pool of cash

for pay increases and applying it through an agreed distribution according to results or improvement. They all work against you with high performers. These people typically hate being closely supervised or given fixed targets. They find feedback from lesser performers useless and often tinged with envy. They don't need artificial stimuli like awards or competition to drive them forward. They drive themselves harder than anyone else can. And agreed distributions for salary increases often work to limit the topside to make sure that medium and even poor performers walk away with something.

Who Sets the Standards?

Who decides what it will take to reach the acceptable norm for performance? Many companies have elaborate lists of key competencies, often produced by lengthy processes of consultation. How up to date are they? How easy is it to change them when markets change or businesses encounter a different climate? In my experience, the longer it has taken to achieve the original list (and the tougher the political battles involved) the less ready anyone is to open up the whole can of worms a second time. That leaves companies with standards that are outdated and which gradually fall into disrepute.

I once knew a CEO who got angry with his employees because, try as he might, 50 percent of them were always below average. That's the problem with distributions as a mean of giving people feedback. For you to be above average, I have to be below. And what's the average anyway? Standards are often based more on hopes and wishful thinking than reality. They also quickly become outdated. Besides, the long history of problems with appraisals should have taught us that managers don't like to be the bearers of bad news, so in many organizations everyone is average or slightly above in terms of performance standards - a total mathematical nonsense.

Rate Busters

Managing something typically implies controlling it; keeping it within agreed boundaries and making it predictable. Performance management processes assess people against assumed boundaries of normality. As we've shown, most are likely to focus on improving poor performance instead of developing ways to produce more high performance. Few decisions are simpler than deciding something has to be done about performance that falls below the level of acceptability, but what about performance that rises above the upper limit of the predictable?

Outstanding performance is often threatening to established norms. It tends to be unpredictable, radical and risky. It suggests that the norm might be lower than it needs to be. If that is so, everyone else needs to shape up. Who's going to judge whether this is truly outstanding performance or the aberrations of someone with impractical ideas? Performance management systems rely on boss or peer measures, but neither group may even understand what the truly outstanding person has in mind.

Faced with a threat to what has seemed predictable, creative leaders and others seeing the need for change face more critics than supporters. Unless they can show hard evidence of results quickly, it's easy to set their ideas aside as impossible or impractical. Have you ever noticed just how many famous people who have created new industries, or new technologies, or new markets, have done so either by founding their own business or inheriting the top job from a relative? America has many world-class companies filled with talented people. Shouldn't it be the case that the supply of headline-grabbing entrepreneurs from these businesses ought to overwhelm the few that manage to start their own business or inherit one from Daddy? In fact, the opposite is true.

It's easy to see why. Would you like to have been the supervisor of the young Bill Gates?

How would you have assessed his performance based on established best practices in performance management 20 years ago? What about Richard Branson of Virgin? Would he have been rated an A employee by a General Motors performance management system? Big companies with many systems and rules are notoriously poor supporters and developers of talented individuals. Because they tend to focus on dealing with negatives and setting rigid standards, traditional performance management techniques block fresh ideas and new ways of assessing current and future potential for growth. Mostly their effect is to stifle top talent or persuade it to seek its fortunes elsewhere.

The Need for Potential Management

Dealing with people whose current performance is below the acceptable level may be common sense, but the most important question is why they are doing so poorly. What will the benefit be and will it repay the effort of correction? They may not understand what's needed, or may be de-motivated by some internal system, or find themselves working for the wrong person. They may lack some specific skill or experience. All these issues are easily rectified. Correction should produce swift improvement. But these are better described as performance blockages, not performance limitations. Take away the blockage and performance should increase at once. Performance limitations go far deeper.

What about the person whose values and habits of thinking and action are so poorly suited to the organization or the role that only a major change over a long period will make a difference? What about the person who's in the wrong job or the wrong profession? What about the person who's developed habits of behavior that frustrate those around them and wreck their effectiveness? It may take months or years to rectify such problems. The cost for all parties can turn out to be far more than the result may seem to justify. Besides, human beings have free will to co-operate with change

or fight it. If people think there might not be enough of a return to justify such a major effort, they quickly learn what's needed to reach a minimum acceptable level of performance and stay there, reserving their real interest for some other aspect of their lives.

The answer to all these problems is to look at potential at the individual, team and organizational level. Potential is future-based. It's made of possibilities and options. A large part of it is the readiness the person has to make changes in his or her habits of working that will deliver consistently high performance.

Potential is often highest in the strongest performers. Like the kids at the top of the class, they're really panting to be moved into the next grade well before the others. Another group with strong potential are those who don't fit the norms. They can be awkward and difficult. But this is usually learned, defensive behavior caused by being knocked around so much by bosses who don't understand or appreciate their innovative ideas. In fact, everyone has some kind of potential. No one need be left out. The questions are: "Potential for what?" and "When will it be ready to be exploited?" Even the lazy and complacent have potential. They're just a long way from being ready to access it.

When corporations rethink performance management from this viewpoint, they can move beyond traditional boundaries and create an organization of strong and creative contributors. Everyone is encouraged to contribute whatever he or she can, and develop as far as they are willing. There are no norms, no averages, and no artificial standards to become outdated and derided. People who are ready now to express more of their potential are encouraged to suggest ways of doing it. Those who need more time, take more time. Those who discover they're in the wrong job are helped to move on. Everyone's eyes are on the road ahead, constantly alert to adjust to

whatever bumps and potholes may be encountered.

In place of the depressing emphasis on what's not working and who's going to be criticized, it's time to turn our attention to finding and building on people's strengths. The overwhelming majority of employees want to make a difference and see their contributions valued and recognized. If they've become wary and cynical of the processes organizations use to "help" them, it's mostly the fault of those very processes. Performance management too often feels like going to the school principal's office to listen to a lecture and pick up the kind of end of term report you really don't want your parents to read. It ought to feel like a motivational talk with the team coach. It should be about what you can do - and do still better - not just about the inevitable mistakes everyone makes. You should come out feeling empowered, validated and supported.

Forget the weaknesses. We all have them and no one ever used their weaknesses to produce an outstanding result. Look at the strengths instead and praise what deserves praise. Build on what already works. Help people stretch towards their personal goals and do what they most enjoy doing. When this happens, typically the first thing to be unleashed is a torrent of suppressed creativity and initiative.

Human Resource departments have sometimes been tempted to act like police; enforcing the corporate laws and setting standards of behavior that are supported by sanctions. People don't usually enjoy dealing with the police and many managers don't enjoy dealing with HR for the same reason. It doesn't have to be that way. This isn't their role. HR is there to help top management deploy employee skills, talent and potential more effectively, and get the very best contribution from everyone in the organization. Line managers, like everyone else who goes to work, want to make a difference; they want to make a contribution that's valued and rewarded. When HR departments help

them do this, the former "enemy" rapidly becomes an invaluable friend and helper. All it takes is to shift perspective from looking for what's wrong to looking for what's right and how to provide more of it.

About the Author

Adrian W. Savage is an international authority on organizational development and potential. More than a decade ago Mr. Savage co-founded the forerunner of PNA, Inc. to help clarify the way people view employee and organization potential. Mr. Savage believes that employees can align themselves more successfully with their commitments and opportunities by exploring their unused talents and fundamental values.

PNA, Incorporated provides corporations with solutions for talent management, organizational development, succession planning and key staff retention. Using proprietary approaches that have been developed and proven over more than 15 years, the company helps national and international clients maximize individual, team and organizational strengths to achieve their business goals. PNA is part of the global RSM International network. Visit www.nettps.com for more information or call 908-541-1700.

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Founded by Camille Smith, Work In Progress Coaching specializes in increasing the performance and productivity of executives, managers and teams. Her approach enables people to achieve organizational goals while maximizing personal and corporate resources. "When people access their potential and produce results that they thought were impossible, two powerful things happen: the bottom line benefits *and* people's view of what they can accomplish together is expanded. This gives the individual and the organization the ability to create and fulfill rewarding futures."

As an associate of PNA, Inc., Camille is a certified NetTPS™ Solutions Provider. For more information, call 831-685-1480 or visit www.wipcoaching.com.