A consolidation of thought pieces on the subject

Points of Interest

- *The first article examines how performance management can assist in driving performance in organisations*
- *The second article looks at why Leadership Development is an essential component of driving performance in an organisation*
- *The final article reflects the five traps of performance measurement that many leaders fall in to*
- *These concepts have been integrated into a worksheet for you to complete in your own time as a component of self reflection*

Inside this guide…

EFFECTIVE PERFORMANCE MANAGEMENT DRIVES HIGH-PERFORMING ORGANIZATIONS (EXTRACT)

BY ANGELITA BECOM AND DAVID INSLER

Despite the fact that many organisations continue to struggle with performance management, some report they have found ways to conduct the process effectively with positive results for the company and employees, according to results from the recently conducted *2010 Study on the State of Performance Management by Sibson Consulting* in conjunction with WorldatWork. The study found that along with supporting differences in salary increases, companies want performance management to support greater employee accountability (good for the company) and better talent development (good for the employee). (See Figure 1). What can organisations learn from companies that are effectively executing performance management, and how can performance management be more effective across the board? Building on the results from the Sibson/ WorldatWork study, Sibson's model for improving performance management can help many organisations address these issues and concerns.

Effective performance management starts with senior leaders being champions of a cause.

"There is nothing crueller than telling someone who is doing a mediocre job that he or she is doing well"

-Jack Welch

FIGURE 1: TOP THREE DESIRED RESULTS OF THE PERFORMANCE-MANAGEMENT PROGRAM

Desired Results	% Selecting
Differentiated distribution of rewards based on individual performance	66%
Greater individual accountability	54%
Talent development	46%

MODEL FOR IMPROVING PERFORMANCE MANAGEMENT

The model for improving performance management starts with a foundation of business process design and technology enablers. They are the fundamentals, but not the drivers of effective results. These drivers, also described as the pillars of effective performance management, include:

- Leadership champions
- Differentiated individual outcomes
- Business-critical goal alignment

The three pillars support the most important aspect of effective performance management—frequent outcome-based conversations (see Figure 2).

The biggest champion performance management at most organisations is the top HR executive

FIGURE 2: MODEL FOR EFFECTIVE PERFORMANCE MANAGEMENT

THE IMPORTANCE OF LEADERSHIP CHAMPIONS

One of the key findings of the study is that the perceived effectiveness of performance management is influenced by support from senior management. Respondents who gave their organisations' performance management systems better grades were most likely to agree that senior management publicly supports performance management. Leadership champions that both support the process and model the behaviours use performance management to improve organisation performance. Sibson divided the publicly traded companies in the study into quartiles according to their three-year total shareholder return. That breakdown of the data revealed that top-quartile-performing companies were more likely to agree that their senior management both publicly and privately support the performance management process. The biggest champion of performance management at most organisations (73 per cent) is the top HR executive, according to study results; at nearly one-third of organisations, it is the president/ CEO.

Further analysis of the study reveals differences in outcomes in organisations where the president/ CEO is the champion of performance management versus organisations where this is not the case. For example, in organisations where the president/ CEO is the champion, performance management is better able to help the organisation achieve its strategic objectives. Fifty-five percent of respondents in organisations where the president/ CEO is the performance management champion agreed with this statement compared to forty-three percent in organisations where this is not so. Additionally, in organisations where the president/ CEO is the performance management champion, employees have a stronger sense of trust in the process. Forty-one per cent of respondents in organisations where the president/ CEO is the performance management champion agreed with this statement compared with twenty-seven per cent in organisations where this is not so.

"A leader is one who knows the way, goes the way, and shows the way."

– John C Maxwell

THE IMPORTANCE OF DIFFERENTIATED INDIVIDUAL OUTCOMES

The study also found that performance management is much more likely to be linked to merit increases than to either short-term or long-term incentives. Performance management appears to provide opportunity for differentiation among low and high performers. Low performers receive significantly lower/ no pay increase at 65 per cent of the respondents' organisations. High performers receive significantly differentiated pay from average performers at 42 per cent of these organisations. However, when analyzed based on whether performance management is viewed as an administrative process versus business-critical, the results are quite telling. The ability of an organisation to view performance management as business-critical versus just an administrative process enables stronger links between performance and merit increases, short-term incentives and long-term incentives.

Differentiated performance also requires a process for calibrating performance results across the organisation. This not only builds trust in the system through discussions that ensure fairness and equity, but also allows managers to better understand the role and impact of employees whom they are not directly supervising.

Calibration helps organisations to increase the visibility and accountability of performance ratings and norms of performance. It opens the discussion among leaders and managers about what constitutes a high performer and reinforces expected standards of performance across the organisation. Calibration can also be used to make other talent management decisions, such as those regarding promotions.

Employee trust in the process is another essential outcome of a strong performance management system. However, only thirty percent of the study's respondents reported their employees trust the performance management system. Adopting and communicating a calibration process can increase trust in the process.

Only 30% of the study's respondents reported their employees trust the performance management system.

THE IMPORTANCE OF BUSINESS-CRITICAL GOAL ALIGNMENT

According to the respondents, alignment between individual goals and organisation goals is strongest at the senior management level. The perceived linkage decreases significantly at the middle-manager level and is lowest for employees who are not managers. However, an organisation's ability to view performance management as business-critical versus an administrative process increases the effectiveness of goal alignment from the top to the bottom.

How can organisations move performance management from a predominantly administrative process to business-critical? Organisations that have succeeded in doing so tie it to specific processes of the business and the overall business cycle.

Performance Management Success Criteria

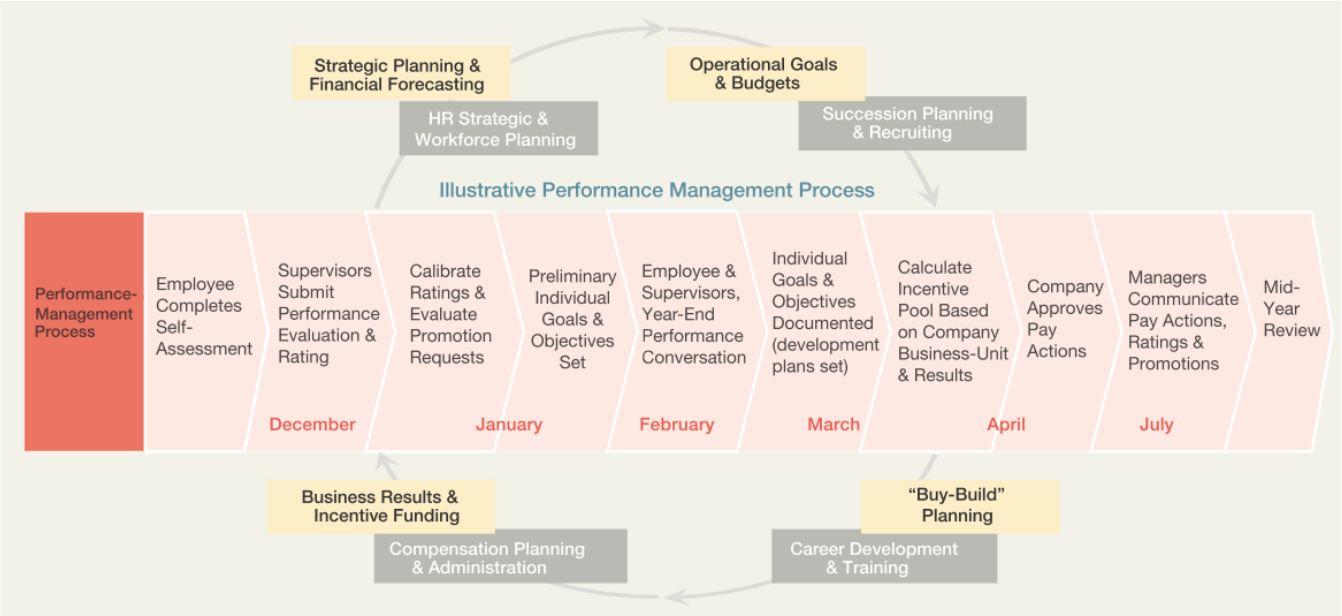
- Leadership not only sponsors but models appropriate behaviours
- Goals and other performance criteria are clearly defined and aligned across the organisation
- Regular and constructive communications occur between supervisor and employees
- Calibration occurs across the organisation to reinforce fairness and equity
- The question "what's in it for me?" is answered
- The process is viewed as business-critical
- Rewards and other talent management processes are consistently linked
- The entire performance management system is

FREQUENT PERFORMANCE CONVERSATIONS

Effective Coaching

The highest-rated challenge to effective performance management, cited by nearly half of the respondents, is that managers lack the courage to have difficult performance discussions with employees. More than half (56 per cent) of the respondents' organisations invest in manager and employee training to make performance management more effective. A similar percentage of the respondents (55 per cent) reported that managers complete their assessments on time. However, far fewer respondents (28 per cent) said their organisation's managers focus on having effective performance conversations, rather than just completing the forms. Sibson's feedback framework provides a structure that managers can use to conduct effective coaching conversations by helping them set expectations, make observations, formulate assessments and establish consequences.

EXAMPLE OF AN INTEGRATED AND ALIGNED PERFORMANCE MANAGEMENT



CONCLUSION

The organisations that get the most impact from performance management are those that use it as a tool to differentiate performance, create a foundation for coaching and drive business results. To improve its performance process, an organisation must analyze not only the design of its program, but also the key drivers of a successful system: leadership champions, differentiated individual outcomes driven by calibration and business-critical goal alignment, all of which support performance conversations for effective coaching.

DRIVING PERFORMANCE: WHY LEADERSHIP DEVELOPMENT MATTERS IN DIFFICULT TIMES

BY CENTRE FOR CREATIVE LEADERSHIP

Numerous in-depth studies have reached the same conclusion: organisations that invest in leadership development perform better than those who don't. Challenging times magnify that truth even more

A recent report on leadership training by the independent research firm Bersin & Associates put it this way: "The message is clear – leadership development matters. It is hard to find a company which has survived many economic cycles that does not have a [sophisticated] leadership development strategy in place. While it may take many years to develop and refine, the results clearly pay off."

Investments made during challenging times can yield the greatest returns, said Steven Meredith, global knowledge director at the consulting firm Talent Intelligence: "Our research and insights, from advising Global Fortune 500-level companies, indicates it is more important than ever for organizations to invest in their leadership during recessionary periods so that the business not only survives but emerges stronger than the competition."

A follow-up report by Bersin in October 2008 reinforced this point. During an economic downturn, the report said, "not all training drives the same level of strategic value. What companies need most vigorously today is … talent-driven learning programs," particularly leadership development.

"Today, the management team is better at handling difficult questions about people and their development. They've increased their productivity goals and created a more open environment."

- Mary Beth Farrell

(EVP, Service Delivery - AXA Equitable)

Studies show investments in leadership development:

1. Improve bottom-line financial performance
2. Attract and retain talent
3. Drive a performance culture
4. Increase organisational agility

IMPROVE FINANCIAL PERFORMANCE

A 2007 study in Harvard Business Review by Laurie Bassie and Daniel McMurrer showed a strong link between leadership skills and the bottom line. The study examined the stock prices of 11 publicly-traded financial services firms. Companies with high scores for their investments in human capital delivered stock market returns that were five times higher than that of companies with less emphasis on human capital.

Bassie and McMurrer also cited a separate study of 750 large, public firms. The bottom line: organizations with the best human capital practices provide returns to shareholders that are three times greater than those of companies with weak human capital practices. Leadership development made a tremendous impact on the bottom line of the U.S. Postal Service, which engaged CCL over several years to ramp up its leadership effectiveness. The results: $8.8 billion in cumulative cost savings. The elimination of debt. Record productivity. Record customer-satisfaction ratings.

ATTRACT AND RETAIN THE BEST TALENT

Research by Bersin & Associates shows that providing leadership development for internal staff is more effective than hiring externally. Why? Internal candidates already know the organization and how to navigate it. It is also often difficult and expensive to recruit outside leaders to fill key positions. Financial powerhouse AXA Equitable saw strong leadership – the kind that wins the hearts and minds of employees – as the key to breakthrough performance. With CCL as its partner, it launched an ambitious initiative to help several hundred company executives lead through change. Several years later, AXA executives have raised productivity goals, improved communication with employees and strengthened their leadership pipeline, positioning AXA for sustained success in a rapidly changing industry.

Bersin & Associates found that companies with strategic approaches to leadership development are:

84% more effective at increasing the quality of their leadership pipeline

73% more effective at improving overall employee retention

67% more effective at increasing the engagement, retention and teamwork of leaders

DRIVE A PERFORMANCE CULTURE

As Bersin & Associates states: "It is important to remember that leadership development is not just about developing leaders – it is about creating a culture of performance. There is a relationship between good management and employee commitment. Great leaders attract, hire and inspire great people. A mediocre manager will never attract or retain high-performing employees. Leadership development creates a magnet for high-performers and fosters a high-performance organization. This is why the organizations that are 'built to last' have strong histories of leadership development." Law firms have long operated on the belief that being a good lawyer simply involves subject matter expertise and giving good advice. Leadership is often a neglected part of the equation – and firms can lose direction and, even more significantly, their top talent as a result. Baker & McKenzie, the world's largest law firm, wanted to break that pattern. It partnered with CCL to build a strong leadership culture and to bolster efforts to recruit and retain associates. The program has become so popular there's now a waiting list to take part – and Baker is developing the pool of effective leaders needed to secure a competitive edge.

INCREASE ORGANIZATIONAL AGILITY

When facing changes in the business environment, 86 percent of companies with strategic leadership development programs are able to respond rapidly, compared with just 52 percent of companies with less mature leadership programs, according to Bersin & Associates. Companies also reap greater flexibility from their investments in training. "During a downturn, your company may be likely to ask people to change jobs, take lower pay or, perhaps, change their entire careers. Talent-learning programs facilitate such workforce flexibility. Even more importantly, given today's aging workforce, these are the programs that rebuild your company's leadership pipeline," Bersin says.

A strong emphasis on leadership development played a key role in Textron's transformation from a sprawling, decentralized corporation into a highly focused enterprise. The Fortune 500 company, whose brands include Cessna Aircraft and E-Z-GO golf carts, credits CCL for its enhanced ability to tackle change. Five years ago, the company promoted only 6 percent of its top 175 executives from within its businesses. Today, that rate runs at 74 percent. When Bell Helicopter, of the company's nine businesses, won a big contract and needed more support, Textron moved executives among its own businesses with ease – creating a more nimble and productive company.

"Nothing stops an organization faster than people who believe that the way they worked yesterday is the best way to work tomorrow"

- Ian Madonna

CEO, KPMG Peat Marwick

THE FIVE TRAPS OF PERFORMANCE MEASUREMENT

BY ANDREW LIKIERMAN

In an episode of Frasier, the television sitcom that follows the fortunes of a Seattle-based psychoanalyst, the eponymous hero's brother gloomily summarizes a task ahead: "Difficult and boring – my favorite combination." If this is your reaction to the challenge of improving the measurement of your organization's performance, you are not alone. In my experience, most senior executives find it an onerous if not threatening task. Thus they leave it to people who may not be natural judges of performance but are fluent in the language of spreadsheets. The inevitable result is a mass of numbers and comparisons that provide little insight into a company's performance and may even lead to decisions that hurt it. That's a big problem in the current recession, because the margin for error is virtually nonexistent.

So how should executives take ownership of performance assessment? They need to find measures, qualitative as well as quantitative, that look past this year's budget and previous results to determine how the company will fare against its competitors in the future. They need to move beyond a few simple, easy-to-game metrics and embrace an array of more sophisticated ones. And they need to keep people on their toes and make sure that today's measures are not about yesterday's business model. In the following pages I present what I've found to be the five most common traps in measuring performance and illustrate how some organizations have managed to avoid them. My prescriptions aren't exhaustive, but they'll provide a good start. In any event, they can help you steal a march on rivals who are caught in the same old traps.

Idea in brief:

- Most senior executives find performance measurement difficult if not threatening, and they're reluctant to engage with it in a meaningful way. As a result, companies routinely fall into five traps.
- Specifically, they use themselves rather than competitors as benchmarks, focus on past indicators of success, overvalue numbers at

1 MEASURING AGAINST YOURSELF

The papers for the next regular performance assessment are on your desk, their thicket of numbers awaiting you. What are those numbers? Most likely, comparisons of current results with a plan or a budget. If that's the case, you're at grave risk of falling into the first trap of performance measurement: looking only at your own company. You may be doing better than the plan, but are you beating the competition? And what if the estimates you're seeing were manipulated? To measure how well you're doing, you need information about the benchmarks that matter most – the ones outside the organization. They will help you define competitive priorities and connect executive compensation to relative rather than absolute performance – meaning you'll reward senior executives for doing better than everyone else. The trouble is that comparisons with your competitors can't easily be made in real time – which is precisely why so many companies fall back on measurements against the previous year's plans and budgets. You have to be creative about how you find the relevant data or some proxy for them.

2 LOOKING BACKWARD

Along with budget figures, your performance assessment package almost certainly includes comparisons between this year and last. If so, watch out for the second trap, which is to focus on the past. Beating last year's numbers is not the point; a performance measurement system needs to tell you whether the decisions you're making now are going to help you in the coming months. Look for measures that lead rather than lag the profits in your business. The quality of managerial decision making is another leading indicator of success. Boards must assess top executives' wisdom and willingness to listen. Qualitative, subjective judgments based on independent directors' own experience with an executive are usually more revealing than a formal analysis of the executive's track record (an unreliable predictor of success, especially for a CEO) or his or her division's financial performance. It may sound trite, but how the company presents itself in official communications often signals the management style of top executives. Finally, you need to look not only at what you and others are doing but also at what you aren't doing. Good management is about making choices, so a decision not to do something should be analyzed as closely as a decision to do something.

3 PUTTING YOUR FAITH IN NUMBERS

Good or bad, the metrics in your performance assessment package all come as numbers. The problem is that numbers- driven managers often end up producing reams of low-quality data. Numbers-driven companies also gravitate toward the most popular measures. If they're looking to compare themselves with other companies, they feel they should use whatever measures others use. The question of what measure is the right one gets lost. Similar issues arise about the much touted link between employee satisfaction and profitability. A particular bugbear of mine is the application of financial metrics to nonfinancial activities. Anxious to justify themselves rather than be outsourced, many service functions (such as IT, HR, and legal) try to devise a return on investment number to help their cause. Indeed, ROI is oft en described as the holy grail of measurement – a revealing metaphor, with its implication of an almost certainly doomed search.

Good or bad, the metrics in your performance assessment package all come as numbers. The problem is that numbers-driven managers often end up producing reams of low-quality data.

4 GAMING YOUR METRICS

In 2002 a leaked internal memo from associates at Clifford Chance, one of the world's largest law firms, contended that pressure to deliver billable hours had encouraged its lawyers to pad their numbers and created an incentive to allocate to senior associates work that could be done by less expensive junior associates. You can't prevent people from gaming numbers, no matter how outstanding your organization. The moment you choose to manage by a metric, you invite your managers to manipulate it. Metrics are only proxies for performance. Someone who has learned how to optimize a metric without actually having to perform will oft en do just that. To create an effective performance measurement system, you have to work with that fact rather than resort to wishful thinking and denial. It helps to diversify your metrics, because it's a lot harder to game several of them at once. You can also vary the boundaries of your measurement, by defining responsibility more narrowly or by broadening it. Finally, you should loosen the link between meeting budgets and performance; far too many bonuses are awarded on that basis. Managers may either pad their budgets to make meeting them easier or pare them down too far to impress their bosses. Both practices can destroy value.

5 STICKING TO YOUR NUMBERS TOO

As the saying goes, you manage what you measure. Unfortunately, performance assessment systems seldom evolve as fast as businesses do. Smaller and growing companies are especially likely to fall into this trap. In the earliest stages, performance is all about survival, cash resources, and growth. Comparisons are to last week, last month, and last year. But as the business matures, the focus has to move to profit and the comparisons to competitors. It's easy to spot the need for change after things have gone wrong, but how can you evaluate your measures before they fail you? The answer is to be very precise about what you want to assess, be explicit about what metrics are assessing it, and make sure that everyone is clear about both. The point is that if you specify the indicator precisely and loudly, everyone can more easily see when it's not fit for the purpose.

Conclusion

Why do organizations that excel in so many other ways fall into these traps? Because the people managing performance frameworks are generally not experts in performance measurement. Finance managers are proficient at tracking expenses, monitoring risks, and raising capital, but they seldom have a grasp of how operating realities connect with performance. They are precisely the people who strive to reduce judgments to a single ROI number. The people who understand performance are line managers – who, of course, are crippled by conflicts of interest. A really good assessment system must bring finance and line managers into some kind of meaningful dialogue that allows the company to benefit from both the relative independence of the former and the expertise of the latter. This sounds straightforward enough, but as anyone who's ever worked in a real business knows, actually doing it is a rather tall order. Then again, who says the CEO's job is supposed to be easy?

QUESTIONS FOR PERSONAL REFLECTION...

- How do you deal with your team: How do you address your human capital, from directing their work to dealing with problems and conflict?
- How do you manage the workflow: How do you manage what gets done, and how much oversight there will be? Do you expect people to get it done, or do you make sure it's happening yourself?
- How do you view your role: Do you see yourself as a caretaker of the environment, or the ultimate decision maker and director of traffic?

The way in which we manage performance is directly influenced by our preferred leadership style. The survey that follows will provide you with insight into your specific style as well as some points for consideration regarding the likely impact on driving performance.

UNDERSTANDING YOUR LEADERSHIP STYLE

SELF-EVALUATION QUESTIONNAIRE

(Visit www.sagepub.com/northouseintro2e for a downloadable version)

For each of the statements below, circle the number that indicates the degree to which you agree or disagree.

Give your immediate impressions. There are no right or wrong answers. There are 18 statements to answer

Rating scale: 1 - Strongly disagree 2 – Disagree 3- Neutral 4 – Agree 5- Strongly agree

STATEMENT	RATING				
1. Employees need to be supervised closely, or they are not likely to do their work.	1	2	3	4	5
2. Employees want to be a part of the decision-making process.	1	2	3	4	5
3. In complex situations, leaders should let subordinates work problems out on their own.	1	2	3	4	5
4. It is fair to say that most employees in the general population are lazy.	1	2	3	4	5
5. Providing guidance without pressure is the key to being a good leader.	1	2	3	4	5
6. Leadership requires staying out of the way of subordinates as they do their work.	1	2	3	4	5
7. As a rule, employees must be given rewards or punishments in order to motivate them to achieve organizational objectives.	1	2	3	4	5
8. Most workers want frequent and supportive communication from their leaders.	1	2	3	4	5
9. As a rule, leaders should allow subordinates to appraise their own work.	1	2	3	4	5
10. Most employees feel insecure about their work and need direction.	1	2	3	4	5
11. Leaders need to help subordinates accept responsibility for completing their work.	1	2	3	4	5
12. Leaders should give subordinates complete freedom to solve problems on their own.	1	2	3	4	5
13. The leader is the chief judge of the achievements of the members of the group.	1	2	3	4	5
14. It is the leader's job to help subordinates find their "passion."	1	2	3	4	5
15. In most situations, workers prefer little input from the leader.	1	2	3	4	5
16. Effective leaders give orders and clarify procedures.	1	2	3	4	5
17. People are basically competent and if given a task will do a good job.	1	2	3	4	5
18. In general, it is best to leave subordinates alone.	1	2	3	4	5

SCORING OF QUESTIONNAIRE

1. Sum the responses on items 1, 4, 7, 10, 13, and 16 (authoritarian leadership).
2. Sum the responses on items 2, 5, 8, 11, 14, and 17 (democratic leadership).
3. Sum the responses on items 3, 6, 9, 12, 15, and 18 (laissez-faire leadership).

Total Scores

Authoritarian Leadership _____

Democratic Leadership _____

Laissez-Faire Leadership _____

Scoring Interpretation

This questionnaire is designed to measure three common styles of leadership: authoritarian, democratic, and laissez-faire. By comparing your scores, you can determine which styles are most dominant and least dominant in your own style of leadership.

- If your score is 26–30, you are in the very high range.
- If your score is 21–25, you are in the high range.
- If your score is 16–20, you are in the moderate range.
- If your score is 11–15, you are in the low range.
- If your score is 6–10, you are in the very low range.

Authoritarian Leadership

In an authoritarian leadership style, the person in charge has total authority and control over decision making. By virtue of their position and job responsibilities, they not only control the efforts of the team, but monitor them for completion –often under close scrutiny. The authoritarian leadership style is best used in situations where control is necessary, often where there is little margin for error. When conditions are dangerous, rigid rules can keep people out of harm's way. Many times, the subordinate staff is inexperienced or unfamiliar with the type of work and heavy oversight is necessary. Rigid organizations often use this style. It has been known to be very paternalistic, and in highly-professional, independent minded teams, it can lead to resentment and strained morale.

Democratic Leadership

The democratic leadership style is a very open and collegial style of running a team. This style means facilitating the conversation, encouraging people to share their ideas, and then synthesizing all the available information into the best possible decision. The democratic leader must also be able to communicate that decision back to the group to bring unity the plan is chosen. When situations change frequently, democratic leadership offers flexibility to adapt to better ways of doing things. Unfortunately, it is also somewhat slow to make a decision in this structure, so while it may embrace newer and better methods; it might not do so very quickly. This style can bring the best out of an experienced and professional team. It capitalizes on their skills and talents by letting them share their views.

Laissez-Faire Leadership

A non-authoritarian leadership style. Laissez faire leaders try to give the least possible guidance to subordinates, and try to achieve control through less obvious means. They believe that people excel when they are left alone to respond to their responsibilities and obligations in their own ways. Laissez-faire leadership occurs when supervisors take less of a hands on approach and allow their employees to work and complete their tasks with little to no guidance. The laissez-faire leader doesn't see the need to provide feedback, continuous input, or scrutiny to their team. Usually there is a good reason for this: they tend to work with highly-experienced and functional groups. If the group doesn't fit this mould, there will be problems.

Questions for personal reflection

Now that you have an understanding of your leadership style...

- How do you think this impacts on the way in which you manage performance?
- What are the strengths and pitfalls of your approach?
- Does your leadership style pre-dispose you to fall into any of the 5 traps of performance management?