# *Why Performance Management?*

Bill Gates had just stated the obvious: Microsoft had underestimated the Internet. Now he and his management team, a group of about ten individuals, had to move their organization in a whole new strategic direction. Time had been lost, and the clock was ticking at about 300mhz.

What happened over the next few weeks is a testimony to organizational execution. Microsoft's 27,000 employees changed course with the precision you would expect from a school of fish, not a school of software developers. Within three months Microsoft had reinvented itself to become the leading Internet company.

This kind of organizational execution is what performance management is all about. We live in a turbulent world that demands agility. Sudden opportunities and sudden threats arise. Too often, when a management team makes a swift response, it creates a "crack the whip" reaction in the rest of the organization. Whole departments break loose or fail to move with the rest. Organizational bonds are broken. Performance management creates the systems and practices that bind the organization together so that everyone executes as one—allowing the organization to "spin on a dime" without flying into pieces.

Some organizations are able to use cultural ties to create the common understandings that lie at the root of the ability to execute. Japanese organizations are often applauded for their ability to execute, and this ability is seen to arise from their culture—not their systems. The Japanese work culture includes many positive values, assumptions and "ways of doing things" that create an ability to respond as a whole without fissures.

US organizations generally have to use systems rather than culture to create common understandings and the ability to execute. The US is composed of so many and such diverse cultures that it is difficult to create an organizational culture that can substitute for strong organizational systems. For example, even Hewlett Packard, whose organizational culture is so positively featured in William Ouchi's book, Theory Z, uses Interact's programs to build performance management and problem solving systems. The US has many unique strengths that come from its diversity, but capitalizing on these strengths requires well-defined organizational systems.

Performance Management is—together with the selection system and the compensation system—one of the most basic systems in any organization. This brief article will summarize the System elements of Performance Management and then focus on the Practice elements that make Performance Management take effect.

**The System side of Performance Management**

The system side of performance management includes the policies, procedures, and forms that guide how managers set direction, coach, and give feedback. The system side is the formal structure that underlies performance management and gives it legitimacy. By themselves, strong policies, procedures, and forms will not ensure the kind of execution demonstrated in the example above. However, these system elements are the building blocks to this level of response.

The foundations of a performance management system are a Task Analysis and a Competency Analysis. The task analysis maps the organization's value-adding processes into tasks, and groups these tasks into person-sized bundles. The nature of the tasks drives the organization of groups and of the position descriptions of individuals within the groups.

The competency analysis examines each position description and determines the knowledge, skills, and behaviors that are required for success. The competency analysis feeds information into the organization's selection, measurement, development, promotion, and compensation systems.

The performance management system itself includes standard forms and procedures for setting objectives, establishing development plans, and evaluating performance. The primary purpose of these elements is to direct individuals toward specific business objectives and competencies. As formal discussions and documents they also provide links to the development, promotion, and compensation systems as well as provide for corporate memory, oversight of the process, and legal documentation.

These system elements provide for the long-term development and deployment of human resources. They make sure that jobs include the right mix of tasks, that people with the right capabilities are placed in the right jobs, that development proceeds along the right paths, and that progress is recognized and rewarded. However, this system can degrade into a hollow bureaucracy unless it is focused on achieving current business results.

Capabilities are fine, but—by themselves—they don't pay the rent. Capabilities without business results aren't going to get a manager very excited. Turning capabilities into accomplishments is achieved primarily through the actions of individual managers—the Practice side of performance management.

**The Practice side of Performance Management**

The practice side of performance management is the "people" side. It includes how objectives are set and communicated, how development plans are created, how people are coached and supported, and how feedback is delivered and accepted. Research suggests that it is these day-to-day behavioral elements that drive performance. Organizations that are excellent at execution have managers who are excellent at the practice side of performance management.

**Performance Management Practices that are Brief, Continuous, and Informal:** Successful performance management is a daily process, not a series of annual discussions. Objective setting, coaching, and feedback need to happen during the two-minute discussions that happen in hallways and at work sites, not just in formal sit-down meetings. Managers need communication tools and skills that fit into the brief, informal interactions that make up their workdays.

**Objectives that are Strategic, Specific, and Inspiring:** The textbook example of an effective objective is President Kennedy's: "We will land a man on the moon by the end of this decade." Think of all of the factors that made Kennedy's "man on the moon" objective *strategic* for the US. It was a strategy for demonstrating the nation's military proficiency and for demonstrating the achievements possible under democracy and free enterprise. It was a strategy for funding technology development, for creating the infrastructure of the information age, in a time of peace. It was a strategy for bringing people together around a great mission and inspiring heroes.

These strategic purposes were discussed by the administration and determined in advance. We were not going to the moon out of idle curiosity or an obsession with astronomy. The objective was carefully chosen for the long-term strategic interests it could further. Managers need to be similarly careful in deciding which objectives to focus on.

There is no doubt that the space race was *inspiring*. It carried the thrill and excitement of the Olympics, but was taken much more seriously. This kind of inspiration can come from many sources, but researchers who study achievement hear the same few reasons again and again. These commonly-heard expressions of inspiration are:

* *"I want to make the world a better place—I want to help people."*
* *"I want to be the best—to win—to show the world what I can do—to be on a winning team."*
* *"I want to become my best—to be the best I can be—I want to reach my full potential."*

The space race tapped into each of these motives. It gave a wide variety of people a way to tie their own motives into a single objective. There are ways that managers can also tie objectives into these motives. "Helping people" becomes a tie to customers; "being on a winning team" becomes a tie to strategy; "reaching my full potential" becomes a tie to development.

"A MAN on the MOON by the END OF THE DECADE," is as specific and measurable an objective as you can get. It is the kind of objective that you can picture in your mind's eye. Objectives that are not this specific are also less strategic and less inspiring. They are easy to take your eye off of. They drop out of sight as short-term priorities take the spotlight.

**Development Plans that make Competencies Specific:** Try this experiment as I describe it. I asked managers write the names of their employees onto cards and then rank order them from "best" to "worst". This task took most of them under a minute, and they judged their overall rankings to be 80% accurate. Take a second to rank your own employees or teammates.

Next, I took the cards with the names on them, shuffled them, and asked other employees who knew the people to also rank them.  I compared the rankings.  Believe it or not, the rankings were very similar, correlations in the mid 80's.  I was pretty excited.  It looked as though these rankings held a lot of truth-value.

Here is the crux of the experiment.  I would ask people to look at two people in the middle of their list. I'd ask them to explain why they had ranked one higher than the other.  Try this yourself.

Here is what I learned: Most people use words like, judgment, leadership, initiative, reliability, trustworthiness, etc. to explain their rankings.  My guess is that you did too.  It is only natural.  These words are *competencies*, not *objectives*.

Competencies describe patterns of performance, not the achievement of single objectives.  And they are notoriously tough to be specific about.  One manager explained a ranking by saying, "This person is more creative, attentive, more on-the-ball.  Know what I mean?"

Competencies are important because they are the basis for most management decisions (transfers, promotions, dismissals), and because they contain a lot of accurate information. If a single objective is like a single "time at bat" for an employee, then this baseball analogy would make a performance factor the employee's overall "batting average."  And you baseball people know that coaches pay attention to batting averages, not single times at bat.  Managers need better ways to talk about the "batting averages" that organizations call competencies.

**Consistent Coaching and Counseling:** Here is another experiment.  We asked managers to identify three groups of supervisors: the top 5%, the top 20%, and the bottom 20%.  We didn't know which supervisor was in which level, but we followed each of them around for several days.  We wanted to learn what separated the best from the rest.

The bottom 20% were easy to recognize.  They weren't around much.  They would hide in their offices, didn't seem to know their people's names, avoided eye contact, and were noticeably uncomfortable in social situations.  We even had trouble finding some of these bottom 20 percenters. The message was clear, "You can't coach or counsel if you aren't around and involved."

The top 5% and 20% were tougher to tell apart.  All of these supervisors were very skilled and very committed. But, over time, patterns became clear.  The good supervisors were either good at getting the job done or good at getting along with people.  The best supervisors were good at both. One supervisor summarized it by saying, "In this job you need to be tenaciously sensitive and sensitively tenacious."  Another said, "You need the patience of Mr. Rogers and the focus of the Energizer Bunny."

Skilled coaches need to be present, positive, & persistent. They need to see improvements, even when they are minor, and use recognition to build the basis for further improvements. They need to see problems, and explore them with concern and persistence until they are corrected. They also need to look beyond the immediate emergencies of the day to keep people directed toward long-term strategic objectives.

**Clear Performance Feedback—and the ability to deal with the fallout:** Direct, honest, and constructive feedback is an integral part of performance management. But sometimes this feedback can hurt. The old adage is that, "Eighty percent of us think that we're in the top twenty percent." If this adage is true, and it has that ring, then a lot of solid performers will be very disappointed with their reviews.

Edward Deming, the founder of the modern quality movement, thought that this risk of disappointment and de-motivation was so great that performance evaluations should not be done at all. Of course the current legal structure requires some kind of evaluation system, and even Deming recognized the importance of feedback. But the problem remains. Should a manager give accurate feedback if it risks undermining the motivation and performance of a valuable employee?

Instead of avoiding accurate feedback, managers need to recognize the kinds of reactions, ranging from defensiveness to hostility to tears to clamming up, that can signal a problem in a review. Then they need the skills for bringing the employee back on board. Managers need to know how to build win/win solutions that keep the employee on the team. Managers want every review to end with the working relationship intact if not stronger.

**Summary**

Performance management consists of a system and a set of practices that bind an organization together, especially as it changes course or accelerates toward a desired business end. The system elements derive from task and competency analyses, and build basic organizational capabilities. The practice elements require a daily focus by managers on objective setting, development plans, coaching, and feedback.

Most companies face a rapidly changing environment—including changing competition, customers, and technology. This changing environment creates opportunities and risks, and will require ever-increasing levels of agility and execution.

Managers at most organizations would benefit from a performance management system that would make sure that objectives link across levels and across departments. They would benefit from coaching strategies that enabled them to hold people accountable while building trust and commitment. They would benefit from feedback strategies that could be used in tough situations.