Performance Management – Unleashing the Hidden Potential

For CEOs and those who want to be CEO

By Locke Hassrick

Performance Management is not just about compliance! Every organization has an opportunity to increase its revenue and decrease its cost with a Performance Management system. In this article we focus on helping the CEO unleash the hidden potential of their organization with Performance Management. Typically your HR Department is responsible for designing and overseeing Performance Management. Has their focus been on using it to increase revenue and decrease the cost in your organization? If not, don't wait for your HR leadership team, it is time you direct the full force of your leadership skills on Performance Management and get your HR team on board with the idea that they are more than a compliance shop, they are a profit shop. Why do some organizations excel in Performance Management while most just barely get by? The key differentiator is executive sponsorship. Only with strong executive sponsorship will your Performance Management system work well. Yes, a few good managers in your organization might keep things just above water, but "above water" is not even achieving mediocrity and your organization deserves better. This article reviews the problems with Performance Management, why it is important, and how you can unleash the hidden potential of your employees: the heartbeat of your organization.

Who likes Performance Reviews?

Many of you reading this went a little numb when you read the words *Performance Management.* The literature on the subject, and check your gut here, indicates nobody likes the performance review process, employees and managers alike. The large ERP vendors, Oracle, SAP, Infor, Workday, and others sell billions of dollars of software every year with features to track and manage performance. However many organizations choose not to implement, or fully implement, the Performance Management features. Of the four ERP vendors listed above, one uses about 70% of the features, one about 0% (yes that is a zero). The software is truly state of the art, so why don't they fully implement the Performance Management features? It boils down to either a lack of understanding or executive laziness. The chain of command below the executive will comply with a defined process, but most will not go too far out on their own as it is extra work that is generally not rewarded and oftentimes punished. If they are proactive and go beyond their organization's executives' directives they risk that the HR department will issue a directive that makes their efforts moot, do something else so managerial initiative is trounced. What is left is a group of, at best, confused employees, at worst, employees going to your competitors. Of course not all your employees will leave to your competitors; just your top performers will leave.

During the review, the employee has their defense system at full alert, they want to be told they are invaluable and most importantly they do not want to be insulted. And, no matter how many times you say the review process is not about raises and promotions, that is exactly what every employee is focused on, a raise and/or promotion. While most employees can handle and even appreciate constructive feedback, employees will be insulted if they feel the manager did not take the time to

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thoughtfully review and articulate performance issues, what is good about their performance and what performance areas need to be developed. Managers oftentimes are not trained beyond the functionality of their HR system, if that, and even if they are right minded they may be instructed by a higher level in organization to *make sure "Bob" the employee knows he messed up.* The manager drinks the proverbial cool aid and makes the employee feel bad, lowers their level of engagement and decreases their productivity. This is not what you want in your Performance Management system, a Performance Management system should be focused on increasing performance, not sabotaging it.

The reviewer oftentimes is not properly trained or otherwise equipped to deliver a meaningful review. When the employee pushes back, they either crumble or become like the stone figures on Easter Island. This is hardly an environment for a constructive conversation where the employee will feel engaged and motivated of focus on improving in way that will benefit the firm.

If you are saying to yourself, *Gosh, that does not apply to me as I only hire the best!* To make the conversation easier, let just say that you do hire only the best. There are at least two issues here. If you need to calibrate your workforce for rewards such as raises, promotions or you need to perform a reduction in force, that is rank them from the very top employee to the very bottom one, you need a Performance Management system to do so. They cannot all be ranked number one. Additionally, if they are top notch when you hire, a mediocre Performance Management system will drive your top performers to become mediocre or even a poor performers. And if they really are top notch, you will simply drive them to another better managed organization.

Make Your HR Department Relevant!

I bet your HR Department does a decent job of managing the benefit process and taking care of the various compliance issues that your organization faces on a daily basis. Not unimportant stuff, but for getting the most out of your most important resource, the resource that manages 100% of your assets, generates 100% of your income, and will typically account for 60% of your cost the HR Department generally is not relevant. Why?

- Typically the HR Department reports to the CFO, not the CEO. Their voice is muffled and not considered strategic.
- Despite the lip service that the HR Department is a partner, the perception in many organizations is the HR just gets in the way of getting things done. The feeling is that they screech compliance and threaten lawsuits will drown the organization if things don't go their way. Result, managers and even executives don't engage with them as they should.
- An HR Department does not directly generate cash. They are considered a cost center. Many CEOs and other executives simply have a hard time paying attention to actions that don't generate cash.

Compliance and lawsuit avoidance are indeed important and are fundamental to running a good organization. I would suggest that you want to go beyond fundamental; you want to maximize your most important resource, your employees. Your HR Department truly needs your executive support to help the organization manage the performance of it most important assets, your people. Sounds great but you want to know if the reward is worth the effort.

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Do Your Own Math

If you have read the Harvard Business Review, stuff from SHRM, and other prominent business publications you will see a thread of data indicating that a lower turn-over rate will reduce your cost while increasing your organization's productivity. I encourage you to spend 15 minutes and do it yourself. If you do it yourself you will believe it. Answer these three questions:

1. What is the cost of losing your top employee? Multiply that by 5% of your organization.
2. What is the cost of holding one unproductive headcount? Multiply that by 5% of your organization.
3. What is the dollar value of getting 1, 3, 5% more out of your average employee?

Obviously your answer is going to vary by the size of your organization and the average revenue your employees produce. If you have a million dollar organization, this could translate to $50,000 to $100,000 improvement. That is significant. If your organization is say, $100 million in size, the answers get bigger, $5 to $10 million which is even more significant. What could you do with that money? Bigger bonuses? Hire to grow your organization? Pay down debt? A dividend for the shareholders? All of the above?

Be a Real Leader

Are you a Leader? *Of course you are!!!* And most of the folks in every organization have some leadership qualities too. The real question is, are you a good leader when it comes to getting the most out of your organization's human capital? I bet if you are an executive you have a good vision of what you want! I even bet you use your executive talents to keep your firm in a high velocity mode for product development and sales. I am also willing to bet *you do not* use your executive voice strong enough to make your Performance Management system lives up you your vision and keeps your organization at the velocity that it could be.

If you review the literature on leadership, you will find that there are hundreds of characteristics of a good leader. I have boiled them down to just three. They all start with the letter "V", so you can remember them forever: vision, voice and velocity. See it, say it, and make it happen. Here is how they relate to Performance Management.

> **Vision** - Expand on your dream for the organization to include Performance Management.
>
> **Voice** - Articulate that vision to everyone, managers, employees, up and down the chain. Make sure they understand why, how, and when.
>
> **Velocity** - Make it happen, keep the pressure up and enforce the discipline in your organization by holding everyone accountable, most importantly yourself. Develop a reporting system that tracks the goals, the appraisals and the feedback.

If your HR Department understands the three Vs on leadership and gets on board with a good system to make sure all employees are aligned within the Vs of the corporation goals and objectives, then HR can lead the way to the strongest contribution to the success of the corporation.

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Unleash the Hidden Potential

I hope by now you believe that a good Performance Management process is worth the investment in time, discipline, and leadership. Do you believe it? Are you ready to unleash the hidden potential in your organization? If your answer is "yes", then keep reading. If your answer is "no", keep reading anyway, you really need to.

Leaders know they need more than platitudes to make change, you need details and an action plan and here it is in twelve easy steps:

1. Recognize you want to change! You want to because you need to and/or will benefit from it.
2. Identify key stakeholders in your organization. Use you your voice get them on board. You will need your collective voice to get the rest of the organization on board too.
3. Assess what you have in terms of Performance Management. Understand the good and the bad and how it relates to your corporate culture. You will probably want to use an outside consulting firm to facilitate this.
4. Define your high level organizational goals. Each employee needs to contribute to these goals according to their role. If the role does not support the goals, you will either need to decide if the role is really needed or if you need to work on better defining your goals. These goals will be flowed down to all levels of the organization. These goals should be measurable or how else will you know that you achieved them?
5. Select a point person for this. This should be at least a VP role; the exact title may vary based on organization structure.
6. Manage whoever you put in charge of the assessment activity, whether it is an internal and/or an external (i.e., consulting firm) actor.
7. Support this effort. Simply, *executive support is the difference between success and failure.*
8. Make sure a detailed plan of how Performance Management will be rolled out is developed and make sure you, the executive, play a key role in this. Key features should include templates for goal definition and assignment, self evaluation, performance feedback, and the actual appraisal. Oracle, SAP, Workday, Infor and a host of other giant software firms make software to facilitate this. While I am not advocating using a spreadsheet for performance management, a spreadsheet, however, is better than all these complex systems if the systems are not used.
9. Monitor activities to make sure activities match the plan.
10. Monitor the goals. Are they being met? Examine the goals by the top level goals and see who in the chain of command is meeting them or not meeting them. Is there a disconnect? Are most people meeting the goal, yet the overall goals are not being met? That would indicate either the performance reviews need to be adjusted or there is a bottleneck in your organization.
11. Reassess. After you have completed the performance review, assess what went well and what needed improvement. What levels of corporate and individual goals were attained?
12. Start again with the lessons learned from the last performance process. This should be viewed as an on-going process that is constantly reviewed and incrementally improved to meet the dynamics of your market and organization.

The next step to unleash your organization's potential lies with you. Go for it! We are rooting for you and your organization.

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About the Author

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