Performance
Creating the Performance-Driven Organization

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Performance
The book is dedicated to my grandfather, George Kapp, a man who worked throughout his life as a bricklayer and steel mill laborer, but who always had a passion for business. He got me hooked as a child on watching Wall Street Week on PBS every Friday night, reading the business section of the newspaper, and buying stocks with the first money I ever earned—all of which contributed to my desire to some day start and run a company.
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The principles in this book have been put into practice by the management team and the employees at Synygy—both within Synygy and for our clients. I want to recognize their efforts at diligently applying these concepts, which I consider to be the primary reason why Synygy has had such sustained success over the past fifteen years.

I especially want to acknowledge two key people at Synygy, Larry Novacich, Executive Vice President of Operations, and Chetan Shah, Executive Vice President of Technology, who I have worked with for over a decade and who—from the beginning—have embraced the importance of creating a performance-driven organization. The two of them are responsible for running Synygy day-to-day, and because of how well they do this, I had the time to write this book.

Two long-time friends and business advisors, Christian Hammarskjold, President of USSC Group, and Scott Samter, President of Dynamic Team Sports, have made critical contributions to my personal growth as a CEO and to the growth of Synygy. I thank them for their friendship and their advice over the years.
A big influence in my thinking about business is rooted in the principles of systems thinking, a discipline that I learned while attending MIT’s Sloan School of Management and that I applied as a consultant at Pugh-Roberts Associates in Cambridge, Massachusetts and Strategic Management Group in Philadelphia. Systems thinking was then popularized by Peter Senge in his book *The Fifth Discipline*.

Other important influences have been my involvement in Young Entrepreneurs Organization (YEO), a group of founders of businesses with over $1 million in sales, early on in this history of Synygy; my participation in Birthing of Giants, an educational program for entrepreneurs produced by YEO, MIT, and *Inc.* magazine, which taught me how to “think big”; and, more recently, my membership in Young Presidents Organization (YPO), a worldwide group of presidents of companies that has given me incredible opportunities to learn from and share knowledge with my peers.

The case studies in the book were gathered and contributed with the help of Mark Donnolo of MarketBridge, Brad Hill of Tandehill Human Capital, and Jerry Colletti and Mary Fiss of Colletti-Fiss. As a result of their efforts, the book contains real world examples that add meaning to the book.

Of course, no acknowledgement could be complete without mentioning my family. My mother, Winnie Sullivan, sacrificed a lot when I was younger so that I could attend college—the only person in my family to do so. My grandmother, Elverta Kapp, raised me while my mother was working multiple jobs. When I quit my job as a management consultant to start Synygy, she asked me—obviously concerned that I was doing something very risky—”Why’d you go and do that?” Now, she can see there’s nothing to be worried about.

Lastly, I thank Art Fischman, who helped me turn my ideas into something readable; Oliver Picher at Synygy, who coordinated the many details of getting the book done; and Tim Burgard at John Wiley & Sons, who saw an article I had written in a magazine and asked if I could turn it into a book. At the time, I had no idea about how much work was really involved in writing a book and I said “yes.” Now that the project is completed, I’m glad that he encouraged me to write it.
INTRODUCTION

Another book on performance management? No, not another book. The first book. And I might as well let you know up front that I have some strong opinions about the sorry state of performance management, how you have been misled into doing the wrong things, and what needs to be done to create a truly performance-driven organization.

Let me begin by asking you to abandon your notions of what you think performance management means.

I think that most organizations, whether they are for-profit businesses, not-for-profit corporations, or government entities, both large and small, would agree, at least in principle, that managing performance is important to success. Indeed, most organizations make a sizable investment every year in processes and technology designed to improve individual performance and organizational results. Most also believe they are doing everything possible to improve performance and maintain it at an acceptably high level. Most companies, however, do not manage performance, let alone drive performance. That’s because performance management means too many things to too many people.

Performance management, as it is currently practiced, lends itself to a myriad of approaches. The topic broadly includes balanced scorecard, six sigma, financial reporting, data analysis, business intelligence, performance appraisals, competency management, training, incentive compensation, and just about any other aspect of organizational and individual performance you can think of.
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But do any of these topics really cover the subject of performance management? The whole subject, that is. Do any provide a unified, cohesive, practical approach required to formulate and execute a strategy that will have a significant, favorable impact on your organization’s top and bottom lines? It would be nice to think so, in view of all the time and money being thrown at each independent approach.

And who wants to commit all those resources to these approaches and not have something to show for it? The truth, sad to say, is that each topic is only one piece of the performance management puzzle; taken independently, each adequately helps to improve only one piece of the organization. None of these topics presents a systemic, integrated approach to performance management.

As the founder, president, and CEO of Synygy, a 500-person company specializing in sales effectiveness, incentive compensation, and performance-management solutions, I had no intention of playing the shoemaker’s child. I knew that our success would depend on how well we practiced what we preached—on how effective we could be in achieving ambitious organizational goals and continuously improving the performance of all aspects of the business.

In our work with clients such as General Electric, Carl Zeiss, Cigna, Sankyo, Johnson & Johnson, Wyeth, and other Global 2000 companies, I had seen the inner workings of many large companies. I recognized just how much inefficiency is built into nearly every process. There are diverse objective-setting procedures that result in inconsistencies—and even conflicts—between different departments and business units. There are multiple employees in multiple departments working on the same task, each unaware of the others. There is significant time and human capital expended to achieve objectives of questionable strategic importance—or worse, the wrong resources thrown at objectives that are strategic.

Large companies that hope to succeed can’t afford to do business this way. Small companies can’t afford it, period. A consistent, enterprise-wide approach to performance management is the key to avoiding these kinds of inefficiencies.
WHERE DO WE GO WRONG?

Let me suggest that the problem is one of not having a complete, unified view of what performance management is and not understanding how it can be used to fundamentally and structurally change the way your organization operates.

What I’ve seen is that management commits itself to improving performance, makes the necessary investment, and then rallies the organization to join in fighting the good fight. Unfortunately, this “good fight” happens to be the wrong fight. To be more precise, it is just one of many fights that need to be fought—with leadership that needs to understand the interrelationships among the various battles and have a comprehensive plan for how all of the battles, when executed together, will result in winning the performance management war.

Today, management’s approach to performance management is similar to that of a physician (a hypothetical one, we can only hope) who, although a general practitioner, focuses only on, say, the respiratory system in treating every patient who walks in the door. Or to that of a car mechanic who hopes to repair every car brought into their shop by tinkering only with the exhaust system. It seems obvious that you cannot treat a whole person or repair a whole automobile by focusing on only one aspect of your subject. So why is this not equally obvious in the case of a multifaceted business organization? Do we really expect to improve performance by looking only at sales and not finance or human resources? By looking only at technology and not people and processes? By looking only at executives and not each person in the workforce? By looking only at strategy and not the tactics for executing strategy?

In spite of what all the so-called experts are telling you—and selling you—performance management does not lend itself to a piecemeal approach. It’s not just about setting and measuring organization goals, creating a better sales commission plan, becoming compliant with government regulations, giving people access to dashboards and data-query tools, or administering the employee performance evaluation process. It’s about all these things—and a lot more.
HOW DO YOU DEFINE PERFORMANCE MANAGEMENT?

Is there one good working definition of performance management that all of us can agree on? There could be, if we were willing to cast aside all the hype and self-serving pseudoscience that’s being peddled out there.

Of course, if we didn’t feel up to creating our own definition and preferred to go with one already out there, we would certainly have a nice selection from which to choose. And although variety can be a good thing, that’s not the case here, where performance management is squarely in the eye of the beholder—an eye that tends to see only what it has been conditioned to see.

Software vendors, industry analysts, systems integrators, consultants, investment bankers, venture capitalists, and financial analysts all have their own ideas about what performance management is. These definitions, which are drawn from only a narrow subset of everything needed to drive an organization’s successful performance, are designed not to paint an accurate picture but rather to showcase the products and services of someone who is trying to sell you something that they think you need.

I can’t imagine that the managers of any organization would take issue with the proposition that effective performance management is a key to business success. That, however, may be the only thing they would agree on when it comes to the subject of performance management. And if they ever bothered to share with each other their definitions of “performance management” and “success,” even that lone basis for agreement would be in jeopardy.

What the current approach to performance management lacks is a single, consistent vision that ties together every component of the organization and its operations. Just take a look at your own organization. For example, is there a tight alignment between the objectives of your departments or business units and the goals of the individuals working in those groups? Are you measuring past performance, when what you ought to be doing is using past performance as an input into the process of projecting future performance? Have you linked the performance of
the organization and individuals to the pay of all employees in the organization? Are you providing more and more dashboards, data-query tools, and reports without a mechanism for turning the data into something actionable and meaningful? And have you integrated the analysis of financial and nonfinancial measures of performance to gain continuous insight that explains what the organization and its people should be doing differently?

If your organization is doing these things—and I mean genuinely and effectively doing all you can to align, measure, reward, report, and analyze the performance of your organization and its people—it is no doubt one of only a few organizations that can legitimately make that claim.

**WHAT’S IN IT FOR YOU?**

When your organization begins to successfully execute a unified approach to performance management—and I hope it will as a result of reading this book—you will literally be changing the behaviors (plural) of your people. Employees who were once preoccupied with achieving individual goals in a vacuum will now be focused on productively and efficiently executing your organization’s strategy, resulting in a sustained competitive advantage that drives revenue, cuts costs, and improves profits.

If you haven’t guessed by now, my primary goal in writing this book is to effect a fundamental change in how you think about executing strategy. To that end, I’m going to show you a comprehensive methodology for achieving genuine performance management—one that brings together all the components of your organization into a single, interlocking “performance network” in which everyone is working from the same blueprint.

Whether you are a chief executive officer, senior executive, board member, or manager; whether you are responsible for a whole organization, a business unit, or a department; whether you are in sales and marketing, human resources, information technology, or finance—if
you choose to create a performance-driven organization, you will have at your disposal a useful tool, as well as an understanding of how to use it to approach performance management as a dynamic, forward-looking process.

The remainder of this book will describe in detail what performance management is and what it is not, and it will present examples of what works and what does not. Be aware that this book is not a theoretical treatise on some abstract management principle. Rather, it is a presentation of ideas that work in the real world, supported by real-world examples. In the pages that follow, you will find ideas that you can use today to develop or modify your own organization's performance management practices.

These ideas can be used to build on any number of existing initiatives that you may have under way, including balanced scorecard, six sigma, business intelligence, data warehousing, and compliance with government regulations. And they can be applied with equal effectiveness in all types of organizations.

We will begin in Chapter 1 with a close look at the fragmented state of performance management today.
Chapter 1

The Fragmented State of Performance Management

“If we spent more money on new software and some good consultants, we could solve this problem.”

How often have we heard these words from corporate managers as they try to explain the poor performance of their organization and its people?

Of course, the notion that the only thing standing between poor performance and breathtaking, record-setting success is inadequate software and a lack of experts to implement it has been with us for quite some time. Certainly, all the enterprise software companies and systems integrators would like you to think that a lack of software is the problem.

After all, with good software, we can set and manage strategic objectives, assign metrics for performance, and cascade objectives and metrics down to every individual in the organization. We can compare sales figures with data from individual competitors, the marketplace, or a selected subset of the marketplace and measure how the organization is performing relative to any number of benchmarks. We can measure individual performance against goals and collect performance appraisal
data. We can create a nearly unlimited number of incentive compensation plans linked to a practically unlimited number of data sources and metrics of performance. We can slice and dice financial numbers—for the enterprise, for each business unit, and for each product line—in literally hundreds of ways. We can generate reams of reports placing the daily, monthly, or quarterly performance of the organization and the employees in any number of contexts. We can rank employees by comparing individual performance to others in similar roles across the enterprise.

The truth is, today we do have good software and we can do all these things. When it comes to the many flavors of performance management, if an enterprise wants to try one, you can be sure that someone somewhere has developed the software for it.

Despite the over promises of software companies and systems integrators, despite implementations that go over budget and drag on for years, and despite an excessive number of well-documented failures, software is truly the all-purpose enabler for the enterprise. And in the field of performance management, there is plenty of good software out there, and much of it can be used to automate performance-related processes—if the approach to addressing a particular issue is rooted first in process redesign and second in process automation using software.

So, as we move forward in understanding how to create a performance-driven organization, there is one important principle you will need to keep in the back of your mind: Performance management is a process problem, and software is not the solution.

I believe that if we are ever going to fix the systemic performance management problems that exist in so many organizations, we need to stop worrying about what new software could do and start looking at exactly which processes we need to fix—regardless of whether we ever use software to automate the process. We need to look at the underlying concepts of performance management and determine whether perhaps we are deploying all that software firepower in the wrong arena or with the wrong priorities. And we need to begin by asking ourselves what performance management is really all about.
Let’s start our analysis with this idea: Performance management is not so much a set of single, independent processes; rather, it is a series of interrelated processes, the combination of which is critical to the achievement of organizational and individual performance.

I have no problem with the many individual flavors associated with performance management. My problem is with the assumption that performance management consists of no more than one flavor at a time—a flavor that may, in fact, be different from the flavors chosen by individual divisions and departments within that same enterprise. There are many perfectly valid approaches—CPM, BPM, and WPM, as well as a host of other acronyms that are described in this chapter—but not for the kind of performance management that has utility across the entire enterprise.

Each of these approaches addresses only one aspect of performance management. An enterprise that believes it can improve performance management by adopting only one of these approaches—and more commonly, just one aspect of one of these approaches—is likely to be disappointed.

To understand why no single approach will suffice, we need to examine the major objectives and capabilities of each one. As we go through this alphabet soup of performance management methodologies, keep in mind that all of them share a fundamental flaw: They lack the full complement of components and associated activities needed to make effective performance management a reality across the enterprise.

As you read all these descriptions, I would like you to think about something else: If we were to tie all these approaches together in a nice, neat bundle, would that collection, as a whole, embody the kind of unified worldview and comprehensive methodology needed for a real-world solution that is truly capable of creating a performance-driven enterprise?

Developing a unified view of performance management requires first sorting out the patchwork of definitions that go with these acronyms. This is a process that requires a thorough understanding of the underlying concepts of each approach. Without such knowledge, we face a subject that begins to look a lot like an organizational model for entropy.
To discover for myself whether this area is really as fragmented as it seems, I did an Internet search on “performance management.” Two and a half million hits later, I was convinced. Of course, that number of hits on any topic would suggest a high level of interest, but perhaps in this case, it is because we are dealing with more than a single topic. A quick look at the results turns up scores of fill-in-the-blank performance management topics. When I then filled in the blank with some of the most common words—such as “business,” “corporate,” “enterprise,” “employee,” and “workforce”—and searched for _____ performance management, I got hundreds of thousands of hits for each item.

Digging a bit deeper into my Internet search results turned up dozens of related, popular topics, including balanced scorecard, six sigma, financial reporting, data analysis, business intelligence, performance appraisals, competency management, training, and incentive compensation. Is it any wonder that people are confused about what performance management means? It’s a phrase that has been embraced and exploited by so many people that it no longer means anything.

In case you don’t notice it on your own, I’ll tell you in advance that the definitions of performance management presented in the next section are overlapping, contradictory, and confusing. On top of that, they are constantly evolving, and the various promoters of a term (typically software vendors, systems integrators, or software industry analysts) may use the term differently, spinning the definition to suit their marketing objectives. Furthermore, sometimes the same initials stand for different terms. For example, does the “E” in EPM stand for enterprise or employee? Does the “P” in BPM stand for performance or process? Does the “M” in BPM stand for measurement or management?

The first thing to understand about the many approaches to performance management that are currently in use is that they fall into two very separate and distinct categories:

1. Terms that refer to the performance of the organization
2. Terms that refer to the performance of the individuals who make up the organization
Organizational performance management is primarily the world of the chief executive officer (CEO), chief financial officer (CFO), and other senior executives and managers. This part of performance management is about setting strategic objectives for the various entities that make up an organization (business units, departments, and product lines), budgeting, measuring the entities against objectives and budgets, reporting results, and using information to determine how well the different parts of the organization are performing.

The most common approaches to the performance of an organization are:

- Corporate performance management (CPM)
- Business performance management (BPM)
- Enterprise performance management (EPM)
- Strategic enterprise management (SEM)
- Strategic performance management (SPM)

Corporate Performance Management

The analyst firm Gartner Research is a primary advocate of the term “corporate performance management.” It describes CPM as “one of the hottest trends in business intelligence” and states that “under the CPM umbrella are the processes, methodologies, metrics and technologies for enterprises to measure, monitor, and manage business performance.”

According to Gartner, CPM introduces a holistic integration of these elements through an enterprise-wide strategy that seeks to align departmental initiatives to prevent managers from optimizing local business at the expense of overall corporate performance.

Oracle, a Gartner client and a well-known supplier of database software, has also adopted the term. Oracle’s definition of CPM focuses on using business intelligence in a closed-loop system to optimize day-to-day operations by monitoring and analyzing transactional data.
and then using business rules and analytics to generate user alerts, recommendations, and automated actions. It makes a lot of sense for Oracle to promote CPM as a corporate savior. After all, it has tapped the market for database software that manages transactional data, so the next logical step is to develop—or acquire—applications that use these data.

Cognos, another Gartner client whose worldview stems from its origins as a business intelligence software company, has also embraced the term. It touts the following benefits of CPM:

- **Predictability**: Drives sustainable and consistent performance outcomes
- **Visibility**: Establishes a clear sightline into what is affecting performance
- **Accountability**: Equips people with strategy-wired information that lets them effectively take charge of specific performance outcomes
- **Agility**: Responds on the fly to changing market opportunities
- **Confidence**: Manages and makes decisions from a common set of numbers and assumptions
- **Alignment**: Ensures that all parts of the business are on strategy and pulling in the same direction

Like Oracle, Cognos needed to expand its product footprint beyond its origins, so it expanded business intelligence both up-process to include planning and down-process to include reporting. Similar in concept to Oracle (although a bit different in practice), Cognos promotes CPM as a closed-loop, coordinated approach to managing organization performance by planning, monitoring, and reporting.

With its roots in business intelligence, CPM is really a slightly expanded and repackaged business intelligence with a fancier moniker, not unlike the repackaging that occurred when “management information systems” morphed into “business intelligence.”
Business Performance Management

The META Group, one of Gartner’s archrivals until Gartner acquired it in 2004, is a primary proponent of the term “business performance management.” It defines BPM as a set of principles that make up a closed-loop management process that includes:

- Setting a goal for a business process (e.g., quarterly sales, customer satisfaction)
- Creating a plan or budget to reach that goal (e.g., number of sales calls, number of customer service representatives)
- Monitoring key performance indicators (KPIs) assiduously to compare actual data against a forecasted estimate
- Ascertaining why a KPI has varied outside its acceptable range
- Adjusting the plan or budget to ensure the KPI is on target to reach its goal

Hyperion, a primary rival of Cognos, has chosen to differentiate itself by getting on the BPM (versus CPM) bandwagon. Like Cognos, Hyperion has layered a set of applications on top of its business intelligence platform to do modeling, planning, budgeting, forecasting, reporting, and scorecarding, thus completing the closed-loop management process described in the definitions of both CPM and BPM.

Like CPM, BPM principles are used by most organizations in the financial management process, which includes planning (during which KPIs are established for various initiatives), budgeting (which includes establishing revenue and cost goals associated with each initiative), and reporting of planned versus actual performance.

Enterprise Performance Management

Yet another analyst firm, AMR Research, encourages the use of the term “enterprise performance management,” which it describes as an emerging superset of applications and processes that cross traditional
departmental boundaries to manage the full life cycle of business decision making. According to AMR Research, EPM does the following:

- Combines strategic goal setting and alignment with planning, forecasting, and modeling
- Uses analytics and tactical reporting to drive smarter operational plans in light of inevitable and ever-present trade-offs
- Actively notifies business users, in context, of performance anomalies, allowing for corrective action to be taken

Enterprise performance management is an iterative, continuous process that aligns corporate goals with departmental initiatives and gives companies the ability to respond to changes or opportunities as they occur by adjusting business strategies, tactics, and activities.

Not surprisingly, another one of the large enterprise software companies—Lawson, which competes with Oracle’s CPM offering—has adopted the EPM term and become a big promoter of the approach. (PeopleSoft also was well known for promoting the term until it was acquired by Oracle in 2005.)

Business Objects, a competitor of CPM-oriented Cognos and BPM-oriented Hyperion, uses the EPM moniker. Business Objects describes EPM as:

- Aligning actions with strategy for continuous performance improvement
- Monitoring what matters so you can focus on meeting strategic objectives
- Acting with confidence, knowing you are equipped to make the right decisions

Global consulting giant Accenture, which partners with Oracle, Hyperion, and Cognos to deliver EPM solutions, seems to have shifted its focus from the use of BPM to EPM—with its older white papers using the term “BPM” and its newer web pages using “EPM.”
Strategic Enterprise Management

None of the major software industry analyst firms or systems integrators has adopted the term “strategic enterprise management,” although SAP, the largest enterprise software company in the world and a competitor of Oracle and Lawson, has made SEM a centerpiece of its strategy to differentiate itself from its competitors. The company promotes SEM as managing the following processes:

- Business planning and simulation to integrate and align strategic, operational, and financial plans
- Business consolidation to support financial reporting standards
- Strategy and performance management to support the balanced scorecard, value-based management, and risk management initiatives
- Stakeholder relationship management for communicating enterprise strategy, current plan data, and strategic initiatives

Strategic Performance Management

Yet another billion-dollar software company, SAS, touts the benefits of “strategic performance management,” which it describes as including:

- A map to define corporate direction—one that molds technology to accommodate strategy to get different views of key internal processes with documented strategic objectives, measures, targets, and initiatives
- A compass to measure and manage progress toward strategic goals—one that combines structured information (data) with unstructured information (text) to give a complete cause-and-effect picture of relationships among internal processes
- A knowledge base for exploring new opportunities—one that simplifies, organizes, and audits every byte of information that flows through your enterprise.
Organizational Performance Management: A Summary

If you look closely at all the words that describe CPM, BPM, EPM, SEM, and SPM, you will see that they are all essentially describing the same thing, with small variations depending on the worldview of the software companies, analyst firms, and systems integrators promoting each particular term. All the terms, however, share some common processes. The basic idea is that in order to effectively manage the performance of the organization, an enterprise must:

- **Align** the strategic objectives, plans, and budgets of the various groups or departments that make up the organization
- **Measure** historical performance, with an orientation toward financial measures of organizational performance
- **Report** organizational performance, especially gaps between expected and actual performance
- **Analyze** what must change to optimize strategy and maintain organization alignment

The closed-loop process of aligning, measuring, reporting, and analyzing is the essence of organizational performance management.

**APPROACHES THAT FOCUS ON INDIVIDUALS IN THE ORGANIZATION**

Whereas CPM, BPM, EPM, SEM, and SPM generally have their roots in business intelligence and focus on the performance of the various entities that make up an organization, there is another whole world that is even
more fragmented and focuses on the performance of the individuals—employees, brokers, contract workers, agents, and others—working for or on behalf of the organization.

Individual performance management is primarily the world of human resources and sales management. This part of performance management is about cascading the strategic objectives of the organization down to goals for every individual, making sure that each person understands what he or she needs to do to achieve those goals, using pay for performance to keep people on track to achieve their goals and the organization’s objectives, providing frequent feedback to individuals about their performance, and analyzing data about the workforce to make human resource decisions.

Although the approaches to organizational performance management are dominated by several large vendors, the approaches to individual performance management are highly fragmented, with pieces promoted by hundreds of different vendors.

Despite the high degree of fragmentation and specialization among vendors, there are a few common approaches to managing the performance of the individuals who make up the organization. These approaches, which tie together various components of individual performance, include:

- Employee performance management (EPM)
- Enterprise employee performance management (EEPM)
- Employee relationship management (ERM)
- Workforce performance management (WPM)
- Human capital management (HCM)

The following sections briefly describe each approach, along with what analysts and vendors are saying about it. The vendor claims, in particular, may not resolve the questions that some of us have about where one approach ends and another begins, but they certainly provide some insight into how analysts and vendors view this side of the performance management market and its likely future direction.
Employee Performance Management

The term “employee performance management” is widely used; however, it means many different things to different people. Gartner describes EPM very broadly as including all the following processes:

- Goal and objective management setting for an individual employee
- Cascading of top-level objectives down through the organization
- Alignment between top level corporate goals and individual goals
- Pay for performance
- Competency evaluations
- Rating scales for competency and weighing importance of competencies
- Appraisal of employee performance
- Assessment for development
- Manager support
- Mentoring
- Development planning
- Succession planning (for key positions)
- Compensation planning
- Position management
- Workflow
- Reporting and analysis

AMR Research says that EPM is a combination of processes that provides the foundation for focusing employee behavior and effort on activities that are most important for the business. At its highest level, employee performance management is a routine, day-to-day activity performed by anyone in the company who supervises other workers.

In practice, EPM combines objectives, real-time visibility of progress against those objectives for each employee, ongoing feedback and coaching, and formal reviews and ratings.

To illustrate just how specialized and fragmented the EPM market is, I have assembled a few descriptions of what various software vendors are promoting—all of which are labeled EPM.
One EPM vendor that specializes in the link between competencies and compensation advertises software to be used for “enhancing the motivation and performance of employees” by providing a method to “address target setting,” “assess the competency balance both of teams and single employees,” and “support the compensation process.”

Another EPM vendor that focuses on performance appraisals describes its offering as addressing the “link between higher employee retention and productivity rates and effective employee performance management.” This vendor offers to “help you provide the feedback and performance evaluations your employees need to succeed at their jobs, all in an efficient and timely manner.”

And yet another EPM vendor broadly claims that it has a solution that “enables the automation and streamlining of all aspects of performance management in order to ease the burden placed on HR and managers.”

Although the analyst firms have done a decent job of defining—in a theoretical way—a complete set of processes required to effectively manage individual performance, the vendors themselves are far from delivering on the analysts’ visionary ideas of what EPM is. Furthermore, because the number of EPM vendors is so great and the approaches to EPM so fragmented, it simply is not possible for anyone to truly understand how the different EPM processes relate to one another.

**Enterprise Employee Performance Management**

Giga Information Group, another analyst firm, recognizes the confusion about the “E” in EPM (which could mean enterprise or employee) and attempts to clarify the matter by creating a new term: “enterprise employee performance management.”

An analysis of EEPM vendors reveals that this approach is narrowly focused on a subset of the more complete, albeit theoretical, definition of EPM. The focus of EEPM is the employee performance review process, which includes goal setting, employee evaluations, and personal development planning.
According to Giga, EEPM enables organizations to build the competencies of employees that are critical to business success, streamline the overall development planning process, develop employees more quickly to meet new strategic objectives, write development plans when the need arises, and provide employees easy access to robust development resources.

Employee Relationship Management

Siebel Systems, which built a dominant position in the customer relationship management space, entered into the performance management space through its “employee relationship management” offering. Siebel (also acquired by Oracle in 2005) describes ERM as consisting of the following processes:

- Aligning organizational activity with key business drivers
- Managing employee performance to track its impact on key metrics
- Communicating continually to reinforce the corporate agenda
- Building workforce competencies to support key initiatives
- Providing employee services to maximize productivity

Trying to analyze the various ERM offerings to get a better sense of exactly what is and is not part of the definition is an extraordinarily difficult task dominated by lots of marketing hype and not a lot of substance.

For example, Siebel and Accenture, in a joint white paper, say that ERM “helps organizations architect the solutions that will enhance workforce performance and organizational flexibility, increase revenues, reduce operating expenses and drive sustainable value throughout the enterprise.” What is that supposed to mean?

CapGemini, a large systems integrator, claims that ERM “help[s] clients build an organizational architecture while developing workforce effectiveness.” And IBM says that its ERM solutions “can help you
build a better workplace—and help increase customer satisfaction at the same time.”

As you can see, trying to define ERM doesn’t get us much further in our efforts to understand individual performance management.

**Workforce Performance Management**

Ventana Research, an analyst firm focused exclusively on performance management issues, prefers the term “workforce performance management,” which it defines comprehensively as a link between corporate strategy and employee execution and between compensation and performance, with integrated individual feedback and direction. Among the components that Ventana views as part of WPM are enterprise-wide learning management and incentive compensation management. Ventana refers to WPM in terms of understanding, optimizing, and aligning every employee with corporate initiatives and goals by setting individual objectives.

Ventana’s approach to WPM has some support from IDC, a rival analyst firm, which finds that “there is some pull from the marketplace calling for WPM to play a bigger role in the way workforces are managed and developed to drive business results.”

Because it comprises the interrelationships and linkages among the various processes associated with individual performance management, the definition of WPM is, in my view, better thought out than that of EPM. As with EPM, however, the ability of the vendors to deliver on the complete vision does not exist.

**Human Capital Management**

Forrester Research, yet another of the top 10 analyst firms, talks about “human capital management” in terms of aligning corporate goals with individual goals, providing employees with personal development plans, implementing competency models, and linking employee performance
to rewards. Like Ventana, Forrester sees HCM as critical to maximizing the performance of the workforce.

As with the other definitions of individual performance management, the HCM space is made up of many vendors, each with a unique view of how it fits into HCM and how its solutions can benefit companies.

PeopleSoft (now Oracle), the largest of the organizations touting HCM, describes the approach as an enabler for organizations “to put the right people in the right jobs, develop and reward top performers, retain key talent for the long term, and increase efficiency and operating performance throughout your organization.”

Another HCM vendor claims that its software “helps companies enhance the management of human resources through streamlined processes, more efficient information access, and better insight into and analysis of critical HR issues and trends.” Another describes its HCM offering as “aligning employees, processes, and strategies for business success.” And yet another claims to give you “organizational insights that enable you to plan effective human capital strategies, and measure and compare your company’s best practices.”

Individual Performance Management: A Summary

So, has our short tour through individual performance management approaches cleared everything up? If our goal was to discover a unique identity for each of these acronyms, I would have to say we failed miserably. But I believe the experiment succeeded nonetheless because we did clear up something about the nature of this field overall.

Specifically, we learned that the approaches to individual performance management are highly fragmented and specialized. We also learned that EPM, EEPM, ERM, WPM, and HCM are essentially the same thing— with relatively minor variations or a few missing pieces. Once again, the various parties interested in promoting differentiation are all using different words—and letters—to describe the same approach to individual performance management.
After synthesizing all the different ways of describing similar processes, we find that the terms used to define the various approaches to managing individual performance share common processes. The core concept is that for an organization to manage the performance of individuals, it must:

- **Align** individual goals with the strategic objectives of the organization
- **Measure** individual performance
- **Reward** individuals for achieving goals
- **Report** individual performance
- **Analyze** what must change to optimize strategy and maintain alignment of individual goals with the organizational objectives

This closed-loop process is similar to organizational performance management except for the addition of the reward process and, of course, the focus on people rather than organizational entities.

**FAILURE TO INTEGRATE THE APPROACHES**

As you can see, the two approaches to performance management—one focused on the organization and the other focused on the individuals who make up the organization—have very little overlap. The two approaches are parts of a hypothetically more complete model of performance management.

“So what’s the problem?” you might ask. “We’ll just combine the two approaches into a single approach that merges the concepts, and we’ll buy software to automate all the processes.”

Not so fast.

The truth is, even if you became technologically cutting-edge and managerially sound across the entire spectrum of performance management acronyms, you still wouldn’t be managing performance effectively, let alone driving performance.

By way of analogy, think about automobile maintenance. You can inflate the tires with air, change the oil, repair the brake linings, and do a
hundred other things to make your car run better. But if you forget to perform even one important repair (such as replacing a dead battery), the process of starting the car will fail, no matter how many other repairs you’ve made.

In today’s business world, companies are failing to make needed process repairs. Surely it’s not for lack of effort. Many companies have adopted CPM, EPM, or one or more of the other approaches just described. Even many entry-level employees are familiar with terms such as “balanced scorecard” and “business intelligence.” But where are the results? And where companies can point to improvements in a particular area, is this the magnitude of improvement they sought to achieve? Is it an improvement that will have a strategic companywide impact? Or is it an isolated success, bearing little or no relationship to the company’s strategic objectives?

I suggest that in almost every case, we are talking about the latter.

The reason this is so is the failure of executives to see the interrelationships among processes—those critical linkages that are required to make the entire business system work efficiently—and the unwillingness of managers working in departmental silos to approach performance management from a cross-departmental, enterprise-wide perspective. In the next two chapters, I will describe how these things undermine real performance management and then suggest a strategy for overcoming them through a far more comprehensive, unified approach to performance management.

ENDNOTES

Creating the Performance-Driven Organization

CHAPTER 2

THE STRUCTURAL BIAS AGAINST PERFORMANCE MANAGEMENT

So how in the world did we ever get to where we are now—a tossed salad of acronyms, strewn across a performance-management buffet table that promises a dish to suit every conceivable taste, with each choice having a different orientation (the organization or its people) and a different focus (alignment, measurement, rewards, reporting, or analysis) for a different part of the organization (sales, finance, or human resources)?

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.
VARYING INTERESTS

Let’s see how your worldview, which depends on your role in the organization, dictates how you perceive performance management.

Finance

To the chief financial officer (CFO) and other finance managers, performance management is about understanding the financial performance of the organization. It’s about gaining insight into how the organization’s different entities (such as business units, divisions, and departments) are performing. The orientation of the CFO is toward measuring the performance of organizational entities, and generally not the individuals employed by them.

Most recently, the CFO has had a largely single-minded focus on complying with government regulations and certifying the accuracy of financial results. This has left the CFO with very little time to think beyond this narrow view of the world. It’s no wonder that, to the CFO, performance management most often means financial reporting.

The secondary priority of CFOs—and one that is always in their field of vision even when they are focused on financial reporting—is looking for ways to cut costs. One downside of this priority is that CFOs sometimes lack a big picture view. Without having a master plan for creating a performance-driven organization, different executives in the organization may come to the CFO seeking budgets for initiatives that will help improve the performance of the organization—and save it money. One by one, the projects are allocated funds without, it seems, anyone putting forth a comprehensive view of how all these initiatives fit together. The result is money and time wasted trying to improve pieces of the organization without a systemic understanding of the interrelationships among the pieces.

Sales

To the sales executive, performance management is about sales force effectiveness—the ability to get each salesperson to sell more—so that
overall revenue goes up. It’s about defining territories so that salespeople are calling on the right customers with the right messages. It’s about setting quotas, managing opportunities, and ensuring that the sales pipeline is being built. It’s about making sure that salespeople have the skills and competencies to accomplish their sales goals. And it’s about designing sales commission plans that motivate and reward the best performers.

At the same time, the world of the sales executive, like that of the CFO, is rather single-minded; that is, get more sales resources, have as low a quota as possible so that sales goals can be more easily met, and make sure that the sales commission plan is as lucrative as possible so that the morale of the sales force stays high. (After all, salespeople live to make money, right?) These objectives are in direct conflict with those of the CFO, which are to get the sales organization to sell more while using fewer resources and to spend as little money as possible on sales commissions.

Human Resources

To the human resources (HR) executive, performance management is about measuring the performance of the individuals who make up the workforce. This most often means doing performance appraisals. Although this is by far the most common view of performance management among HR managers, the more enlightened among them also think about performance management as a way to improve workforce productivity by hiring the right people, evaluating individual competencies and values, making sure that compensation is in line with market rates, and providing opportunities for advancement through training.

It is unfortunate that HR managers—just like their peers in sales and finance—have such a single-minded view of performance management. As an unfortunate result, many HR executives play a relatively passive administrative function rather than a proactive strategic role in the organization.
Information Technology

To the chief information officer (CIO) and other information technology (IT) executives, performance management has no specific meaning—although the solution is almost always about software, and people in IT love to have control over the processes associated with evaluating, selecting, installing, supporting, and managing software.

Even though the business process owner may be in finance, sales, or human resources, and even though IT people rarely have any domain expertise with the business process, it is IT—along with its trusted, albeit very expensive, systems integrator friends—that serves as the gatekeeper. This is particularly troublesome for organizations that have a desire to become performance driven. As I stated in Chapter 1, performance management is a process problem, and software is not the solution. To solve the problem, you have to be an expert in the business process, and this expertise rests in other parts of the organization—not in IT.

Differing Perspectives

The differing perspectives described here are reflected in the lack of a unified approach to performance management in organizations today. Each department in the organization has its specific worldview, and software vendors are awfully good at marketing to each individual department.

There are few better examples of the possibilities of such targeted marketing than in the field of performance management, where there is an approach to suit everyone. After all, why should finance be concerned with the goals of individuals in the organization? Why should sales waste its time with anything that doesn’t directly result in revenue? Why would HR want to risk lowering employee morale by having all employees on a variable pay plan that is tied to performance?

Individual departments may feel they are doing a good job of managing performance, but this kind of boutique approach only serves to undermine overall performance management in the enterprise. As long
as we continue to accept this fragmented view of the world, we'll never succeed at managing performance effectively (though we'll never be at a loss for acronyms).

MISSING LINKAGES

The challenge for organizations that want to become truly performance driven is to adopt a worldview 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 alphabet soup of 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 Individuals

Let’s say that a company comes up with a great strategic plan. It’s going to move into a new market, take a bold new approach to selling, or increase productivity in the plant. There’s a big launch event, press releases, internal communications though posters, banners, and buttons bearing clever slogans, maybe an employee contest of some sort, and, of course, hundreds of PowerPoint slides.

Everyone agrees that the strategic plan is the right way to go, morale is sky-high, and people at all levels of the organization have voiced their commitment. (We both know this doesn’t always happen, but let’s just assume it’s the case here for a moment.)
Yet, a year later, the plan is in shambles. Revenue results are way off target, morale has taken a nosedive, and allegiance to the plan is out the window. What went wrong? One very likely cause of the problem, in its most basic incarnation, is that tasks that needed to be executed were not executed. Or, they were executed but not in an effective manner, which amounts to the same thing as not being executed.

You may think to ask, why did that legion of pumped-up, committed employees never get around to doing what needed to be done?

A number of possibilities come to mind, and all have something to do with the relationship between organizational objectives and individual goals. Specifically, it’s possible that the strategic objectives, though they may have been eloquently articulated in management sessions, were never converted into individual activities and responsibilities. Employees may understand and even embrace the new objectives for the enterprise (“Right. It’s about time we went after that market!”), but they are going to need help understanding exactly how those objectives will be translated into specific tasks that allow them to contribute to helping the company implement its strategy.

Even if some employees have a good sense of how the corporate objectives will affect how they do their jobs, there’s also the matter of coordination to consider. That is, how do we avoid having two (or more) people working on the same task while no one works on some other important task? I view this as a highly probable scenario given the inherent appeal of certain tasks and the equally inherent lack of appeal of others. The result is gross inefficiency and ineffectiveness.

Another possibility is that tasks are communicated to individual employees, but they are the wrong employees for the tasks. This seems like an obvious trap, but upper-level managers often overlook it unless it concerns their own immediate work. For example, we reasonably expect CEOs to use someone with communications skills to write their speeches; to put it more graphically, I’m aware of no CEO who would ever knowingly have the night security guard take a stab at doing a draft (although they might very well use him as a source of anecdotal insights). Yet, how often does a CEO stop to ask whether the person who will be assigned
to, say, analyze market data and propose changes to sales territory is the right person to be doing that?

There’s an assumption at the top level—most often, when the top level is not directly involved in the transaction—that the right people will be assigned to each task. Yet if department heads don’t thoroughly understand what’s involved in executing an objective, the odds are good that a few wrong people will be assigned. The solution? Executives need to communicate more than the overall strategic objective. They also need to break down the objective into a series of individual goals and communicate these goals in sufficient detail to managers to enable them to pick the right people and provide the right direction to those people to achieve the objective.

Think about the behavior of ants in a colony. Each moves rapidly in a different direction—in a hurry to get to some destination, though apparently not the same destination as its fellow colony members. Watch only one or a couple of them, and it makes no sense. Watch all of them and it makes perfect sense. Does each ant have a sense of overall purpose? At some level, probably, but not necessarily at a conscious level. What each does have is a sense of individual purpose—a sense of what task it needs to be carrying out at that moment. If there were no overall sense of purpose, you would be looking at a definition of chaos—everyone doing what they feel like doing. In ant colonies, it works because every worker is somehow in on the overriding purpose of the colony—the strategic objective, if you will.

When it works in companies, it works because every department, though it is doing something unique within the organization, has a sense of how its activities fit in with the enterprise’s overall purpose. No one knows for sure where this sense of larger purpose comes from in an ant colony, but we do know where it comes from in an organization. It comes from upper management: They are the ones who develop the strategy, and therefore they are the only ones who understand, from the outset, the purpose behind the strategic objectives that support it. Upper management must communicate this purpose, but before it does that, it must parse each objective into bite-sized chunks so that departments
have what they need to set consistent goals for each individual in the department and to work in concert with each other rather than at cross-purposes.

**Linking Budgets, Resources, and Objectives**

Nothing is more disconcerting to managers than being given objectives to meet but an insufficient budget to do the job. Strategically unsound objectives demotivate employees; good objectives rev them up. But good objectives, if insufficiently funded, can have an even worse impact on the workforce than bad objectives.

When an otherwise worthwhile objective fails because of lack of funding, employees are likely to feel a greater sense of disappointment and perhaps even betrayal. When the organization fails to achieve its mission, a poor objective is often to blame. If we include in our definition of bad objectives any otherwise good objective that never had a chance of being properly funded, then the previous statement is true more often than we’d think.

But in many cases, the required budget has simply gone elsewhere. Strategic areas are underfunded while nonstrategic areas receive more than enough funding for reasons relating to history, politics, or some other backward-looking criterion.

**Linking Past and Future**

Performance management, as it is practiced today, is a lot like driving a car while looking only in the rearview mirror. In theory, you can do it—provided that you don’t mind hitting a tree or a deer every now and then.

Organizations tend to be firmly rooted in the past. They measure financial performance over some number of prior quarters, and they look at individual performance and productivity, usually over the past year. Based on those data, they know how they’ve done. But what do they do with those data? Usually, they have meetings, issue reports (the number
and length often depending on the nature of the data), and discuss how best to treat whatever symptoms need to be treated.

Santayana said that those who cannot remember the past are condemned to repeat it. Had he studied business organizations over the past few decades, he might have added that those who study only the past are condemned to a future of limited potential. When thinking about performance management, you can spend your time analyzing the past to see whether you are on course. Or you can spend time proactively steering your course toward the future. That means using past performance to change future behavior and making frequent—and by that, I mean at least quarterly, if not monthly—adjustments to your future direction to keep people on the most efficient path to success.

**Linking Finance and Human Resources**

Finance and human resources: Could there be two more different views of the world?

Finance looks at numbers. If the organization meets its revenue and profit targets (along with any number of other measures having to do with such things as margins, cash flow, and inventory turns), then the organization is, by definition, performing well. If the organization falls short of its targets, its performance is inadequate. It’s all about results at the organizational level.

Human resources, on the other hand, is about people and the administrative processes associated with people. Robert Louis Stevenson’s observation that “to travel hopefully is better than to arrive” comes fairly close to describing HR’s worldview. This is not to say that HR is not as results oriented as finance. It is just that, historically, HR must wade through rivers of administrative process before it gets to those results.

And what about each group’s overall orientation toward performance? Finance looks at the big picture. If the organization needs to lower costs, finance looks for ways to cut them. If the organization needs to raise revenue or profit, finance looks for places where that might be
possible. Whichever the case, the numbers are big-picture numbers relating to performance at the organizational level.

Contrast this with HR, which focuses on the smaller picture: What can individual employees do to be more productive? What can HR do to improve employee skills? How can HR help employees advance their careers?

Both orientations can be the basis for worthwhile efforts, but in most cases, these activities take place in a vacuum. Finance looks at numbers without thinking about how individual goals and activities factor into them. On the other hand, HR looks at individual skills and goals without thinking about whether they contribute to the overall mission of the organization.

Human resources may pay lip service to the idea of tying individual skills to organizational strategy—for example, if the organization is moving into a more services-oriented business and therefore needs more consulting skills, or if the organization is hoping to expand market share and therefore needs to assess everyone’s marketing knowledge—but for the most part, HR still focuses on the same general principles associated with HR processes.

The approaches 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 of things and think about what they do in the context of desired financial outcomes. For example, in performance reviews, HR must specifically tie employee ratings to progress that the company has made toward achieving its goals, including financial goals. Unless organizational priorities are reinforced in the employee performance evaluation 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**

In seeking to develop an effective approach to performance management, perhaps nothing is as important as paying for performance. The
idea of rewarding the superior performance of individuals with higher pay seems obvious, but making it happen is another thing. Outside the United States, strong cultural barriers to this exist. In Europe and other parts of the world, pay for performance is almost an absolute taboo—legally, socially, and culturally.

Even managers who claim to be committed to pay for performance are, for the most part, thinking primarily about the sales force, where incentive compensation has long been used. But moving beyond the sales force to link the pay of all employees to their performance is another story.

There’s an important missing link here, one you’ll find in many organizations. In any comprehensive view of performance management, a sensible compensation strategy cannot be exclusively an issue of sales force management; rather, it is a critical requirement across the entire organization. The worldview that places compensation under sales force management is out of step with the trend today.

In the United States, about 50% of companies in a recent survey said they have all their employees on a variable pay plan, and 80% said they have some employees on a variable pay plan. However, variable pay and pay for performance are not necessarily synonymous. In most cases, variable pay is determined by corporate or group performance, not by individual performance. And if variable pay means that a top performer gets a 5% annual raise while a mediocre performer gets a 3% raise, is that really pay for performance? This is not a problem without consequences.

Consider this: At one company caught in a budget squeeze, a good raise was considered 3% and a so-so raise about 2%. For employees making $75,000 a year, the difference was $750, a little more than $60 a month. Take out taxes, and you’re talking closer to $40 a month, about $2 per working day. In view of the hoops that HR departments often make employees go through when it comes to setting objectives and measuring their achievement of the same, one might very well wonder whether it is really worth it for another two dollars in your pocket every day. And remember—we’re talking here about people making $75,000. For someone making $40,000, the exercise would seem even more absurd.
BROKEN PROMISES

So why do organizations continue to move forward thinking they are doing the right thing? One reason might be unreasonably modest expectations. Admittedly, each of the two fundamental approaches to performance management—the organization-oriented approach of finance and the individual-oriented approach of HR—does what it purports to do and does it well.

The problem is that organizations mistakenly equate these approaches, and the various specialized and fragmented areas within each approach, with a comprehensive performance management solution, which they most assuredly are not. These approaches would dramatically fail to live up to expectations—if management knew enough about performance management to have higher expectations.

Competitive pressure is another reason that otherwise astute executives may put their faith in systems that address only a fraction of the problem. After all, if your competitors are focusing on improving performance, how can you afford not to? Better to do something—even if it amounts to little more than paying lip service to the concept—than to watch from the sidelines.

Combine competitive pressure with the trappings of science, add some aggressive marketing and sales to the mix, and you can understand the tremendous appeal of these systems. At some point, however, management will tire of the extraordinary price tags, long implementation times, high risks, and uncertain returns on investment associated with these piecemeal “solutions” to performance management, all of which have led repeatedly to broken promises.

Next, we take a closer look at the elements of effective performance management. Chapter 3 marks the beginning of a detailed discussion in which we’ll look at how to go about driving performance (rather than merely managing performance). This is, after all, the essence of what it means to become a performance-driven organization.
In the last two chapters, we looked at the confusing array of competing definitions of performance management and how the various approaches to performance management are missing certain critical linkages.

We’ve outlined the problem in general terms. The rest of this book focuses on the solution; that is, on defining a unified definition of performance management and discussing the specific steps required to create a performance-driven organization.

So, how does an organization become truly performance driven?

To start with, performance management must be defined first in terms of the big picture. Though everyone else in the organization may (and apparently does) view performance management from their own perspective, the executive team must come together and agree on a single, integrated, unified approach to performance management.

Creating a performance-driven organization is ultimately about culture, and cultural change is a major undertaking that requires commitment, advocacy, and leadership at the top level of the enterprise. Top management must be committed to the concepts of performance
management and its execution and must support it at every turn. This commitment must involve frequent communication and reinforcement of the concepts to employees, stakeholders, process owners, customers, suppliers, and partners.

As we will see, although performance management is defined in terms of strategy and the big picture, it is also about the tactics for driving performance. Question: How much will a great strategy add to your bottom line? Answer: Nothing, unless someone bothers to tell the workforce how to execute it. Whether or not the workforce succeeds depends on a variety of factors, but at a minimum, all employees need to know what’s expected of them.

Be aware that top management often invests everything in the front-end process of defining strategy and declares victory simply because the strategy, on its surface, combines creativity, insight, and eloquence—something that everyone associated with the enterprise can embrace. The messier work of breaking down the strategy into executable steps, each associated with specific personnel and budget requirements, and then communicating everything to the people in the trenches who are assigned to make it happen—takes a lot more effort. I feel no hesitation in suggesting that most executives would prefer to focus on the development of a high-level strategy than on the details of its execution.

BRINGING ORGANIZATIONAL AND INDIVIDUAL PERFORMANCE TOGETHER

The concepts embodied in the unified approach to performance management that I’m about to introduce you to have been put into practice over the past 15 years at Synygy, a sales effectiveness, incentive compensation, and performance management solutions company that I founded and continue to lead as president and CEO. The result: 15 consecutive years of profitable revenue growth—without outside equity capital—and induction into the Inc. 500 Hall of Fame for five consecutive appearances on the list of fastest-growing privately held companies in the United States.
I mention this not to toot my own horn, but so that I can directly, in a firsthand way, relay to you the successes—and failures—associated with creating a performance-driven organization. I will use Synygy at various points throughout the book as a case study to illustrate the components of performance management.

Under this unified approach, the five core components of performance management are to:

1. **Align** the objectives, resources, and budgets of the different parts of the organization and the goals, opportunities, and quotas of individuals
2. **Measure** organizational and individual performance
3. **Reward** individuals for performance
4. **Report** organizational and individual performance
5. **Analyze** organizational and individual strategy execution using models and analytics

Each of the five core components, except the Reward component, has two parts—one associated with the organization and one associated with the individuals who make up the organization (see Figure 1).

By combining all the key pieces of organizational and individual performance into a single model, you can visualize how the two concepts—largely treated as separate and unrelated at most enterprises—come together to create a unified view of performance management.

The remainder of this chapter is devoted to defining each of the five core components of this unified approach to performance management—an approach that is unique in that it ties together the distinctly separate organizational and individual approaches described in Chapter 1 and addresses the missing linkages described in Chapter 2.

**COMPONENT ONE: 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.

I’ll use examples from Synygy to illustrate the concept of alignment. For the first 10 years of Synygy’s existence, our focus was on providing incentive compensation management outsourcing services. We considered ourselves to be “the ADP of incentive compensation.” Our strategy was to provide services rather than the underlying technology used to provide those services, which we considered to be a trade secret. These outsourced services enabled our clients to easily and quickly implement new incentive compensation plans, more accurately calculate results, change the behaviors of their people by helping them understand their
plans and the strategy embodied in the plans, and give management
greater visibility and insight into plan performance.

In 2001, after a decade without any significant competition, three new
competitors, each selling enterprise incentive compensation management
software solutions, entered the market. Combined, they proceeded to
raise more than $200 million in venture capital money. Clearly, their in-
vestors thought there was great opportunity in incentive compensation
management software, and this caused Synygy to rethink its service-orien-
ted offering to the marketplace. We set out a strategy to launch our un-
derlying technology as a packaged software solution, thereby expanding
our offering to a range of solutions—from outsourced plan management
services to hosted software-as-a-service to installed software.

To accomplish this corporate strategic shift, we had to align the ob-
jectives of every part of the organization. Our professional services people
had to adjust the implementation methodology to add a user acceptance
phase to the process. Our data center operations people had to build a
software installation group supported by new automated installation
programs. Our software support people had to think in terms of sup-
porting external clients running their software in addition to internal
clients using the software to provide outsourced services. Our training
people had to redesign training materials to be more appropriate for an
external audience. And our software development people needed to cre-
ate software that could run effectively in a variety of different operating
environments (in addition to running in our data center).

Furthermore, alignment also needed to exist between the objectives
and the budgets and resources needed to achieve the objectives. For ex-
ample, launching a product required capital resources. Our finance peo-
ples had to secure debt financing to pay for the initiative. (Luckily, we
had a long history of profitability and no debt, so obtaining funding
without giving up equity was not a difficult task.) It also required other
resources. In our case, we needed to buy more computers to test the new
software in different operating environments, and we had to double the
ranks of our software development organization to speed the new pro-
ductized version of the software to market.
Another major strategic shift occurred about a year after the decision to launch a software product. We decided that to beat the competition—and we hadn’t done a great job of doing that immediately after the product launch—we had to overcome what we called the “ugly duckling syndrome.” Our software was designed for internal use by our own people to provide services to our clients. As a result, the user interface was less than intuitive. We set out to create a strategic plan to leapfrog the competition by being the first to market with web-based software and, at the same time, redesigning the user interface both to work in a web browser and to be more intuitive.

With this as our new strategic objective, we once again had to align the objectives of each part of the organization and align the budgets and resources with the objectives. For example, we had to completely retrain the entire software development group, which had to switch from writing C++ code to writing Java code. And once again, we had to double the size of the software development organization. We also had to re-think our marketing messages to position Synygy as a technology leader and completely retrain the sales force to understand the benefits of the new technology. This required even more financing to pay for the training and the increase in software development, marketing, and sales resources—and so we borrowed more money.

The strategic objectives of launching our internally used technology as a software solution for use by others and shifting from client-server to web-based technology required a set of fully aligned, organization-wide objectives—and associated budgets and resources—that touched every department. But they also required a lot more. To accomplish these strategic objectives efficiently, the goals of the entire workforce (and external suppliers and partners) had to be aligned with their organizational objectives.

The workforce alignment process involves cascading strategic objectives down to all levels of the workforce, including the setting of individual goals for employees, partners, suppliers, and every other person who is part of the workforce. Through this cascading process, members of the workforce gain a clear understanding of how their performance will
be measured and evaluated. It also creates a tight and critically important linkage between organizational objectives and individual goals and activities. This linkage is at the core of effective performance management.

Fortunately, at Synygy we have had a quarterly alignment and cascading process in place since the early years of the company’s existence. Each quarter, our management team meets to set strategic objectives, after which the head of each department begins a process of cascading those objectives down into the organization so that every single employee has a set of quarterly goals that are directly tied to the strategic objectives of the company. These objectives and goals are reviewed each month to make sure everyone is on the right path to achieving the goals, and goal achievement is measured at the end of every quarter. Because of this long-standing process and because we have a culture that embraces such a process, we have easily been able to steer the company in these new directions.

Synygy’s organizational objective of retraining everyone in software development resulted in the cascading of a Java training goal to each individual in the group. As a result of our objective of repositioning our marketing messages, the person responsible for our web site had a goal of updating the web site; our external public relations agency had a goal of getting software reviews published in certain magazines; and the person responsible for collateral had a goal of writing a new technical white paper. Furthermore, each of these individual goals had to be aligned with an appropriate share of the department’s budget and resources.

In addition to the setting and cascading of objectives and the alignment of objectives with budgets and resources, there are two other aspects of the Align component: the alignment of individuals to opportunities, and the setting of individual quotas and targets aligned with organizational quotas and targets.

Assigning opportunities to individuals by doing sales territory alignments—aligning salespeople with geographic areas, prospects, or customers—and setting sales quotas are most prominent in the sales organization; however, there are equally important forms of work alignment and the setting of production and other numerical quotas and targets in other parts of the organization.
Many, if not most, executives will tell you that their companies already do objective and goal setting, including the appropriate alignment of those objectives and goals with budgets, resources, opportunities, and quotas. Some would point to an annual performance evaluation process in which employees and their managers collaborate to articulate a series of goals that serve as the basis for assessing how well each employee has performed. Some would point to the annual budgeting and midyear adjustment processes. But this is far from the quarterly process of setting strategic objectives and cascading them down into the entire workforce that is at the heart of becoming a performance-driven organization.

COMPONENT TWO: MEASURE

All organizations measure performance. That’s a little like saying that all human beings eat food. Some eat fast food, some eat gourmet food, some are vegetarians, some like it spicy, some like it mild, and so on through a seemingly infinite number of possibilities. Different organizations—and even the entities that make up each organization—focus on different measures of performance.

Measuring organizational performance is largely the domain of the finance department, and many of the measures of organizational performance are financial in nature, including revenue growth, costs as a percentage of revenue, budget variance, return on assets, inventory turnover, and resource utilization. Other measures are highly dependent on the nature of the business and the strategic objectives of the organization. At Synygy, for example, because having exceptional client satisfaction is a primary strategic objective which we link to the pay of all employees, we measure the satisfaction of our clients every quarter with respect to our services and our software (as evaluated by both internal and external users of the software).

As strategic objectives shift, the organizational measures of performance must also shift—just as frequently and in real time. In 2001, when Synygy launched its software as a product, we also adjusted our
pricing strategy to move from an exclusively subscription-based pricing to giving clients the option of paying for the software license up front (in addition to the option of paying an annual or monthly subscription fee). Therefore, we also needed to adjust how we tracked revenue. We went from two measures of revenue (up-front implementation service fees and ongoing service subscription fees) to four measures of revenue (adding up-front software license fees and ongoing license subscription fees). And one of our core measures of the financial health of our organization—recurring revenue—was adjusted to include the combination of service and software subscription fees as a percentage of total revenue.

Measuring individual performance is largely the domain of the human resources organization, although every part of the organization is somehow involved in the measurement of the performance of people in the organization. At Synygy, we have a quarterly process of determining individual performance—including 360-degree coworker evaluations around our core values, detailed skills assessments by mentors, and personal goal achievement—that involves measuring every single person in the company. That measurement is part of a corporate rhythm that is engrained in Synygy’s culture—one that everyone understands is critical to our goal of working together to satisfy clients and achieve the objectives of the company.

Although a great many organizations are becoming competent at measuring the performance of the organization—largely as a result of government mandates to certify the accuracy of financial results and penalties of jail time for executives who mislead shareholders—most organizations continue to do a very poor job of effectively measuring individual performance across the entire workforce. To become performance driven, however, organizations must eliminate this measurement bias toward finance (and against human resources) and treat the measurement of individual performance—true performance, not merely the annual performance appraisal process—with the same resources, budgets, and rigor they apply to organizational performance measurement.
COMPONENT THREE: REWARD

“Pay for performance” is a term that most of us are familiar with. The concept couldn’t be simpler: The better an employee’s performance, the higher the reward, which could be in the form of promotions, merit pay increases, bonuses, stock option grants, reward points, or commissions. However, most organizations have yet to truly embrace the concept, especially nonprofit and government entities and companies outside the United States.

To me, it’s quite obvious: Employees and entire departments will do whatever they view to be in their best interests unless there are negative consequences for doing so or unless there are rewards for subordinating self-interest to organizational objectives—or (preferably) both. Salespeople especially tend to think in terms of getting the sale today rather than selling those things that will help position the company in line with its long-term strategic objectives.

For example, in 2005, after digging into its client satisfaction data, Synygy realized that clients could never become as expert at using the Synygy software as those Synygy employees who were using the software to provide plan management outsourcing services day after day. Furthermore, clients frequently lost key resources which they had trained to use the software. As a result, client satisfaction was lower for those clients not using Synygy’s plan management outsourcing services, and Synygy came full circle in its strategy to once again emphasize the marketing and sale of outsourced solutions. To effectively execute this strategic objective required an adjustment to the sales compensation plan so that salespeople would be paid significantly more commissions for selling plan management services (rather than installed software).

By rewarding individuals for the achievement of objectives, demonstration of competencies and cultural values, and other measures of performance, we are able to drive behavioral change that helps the organization achieve its strategic objectives.

The more people who have pay linked to their personal performance, the more pay that is at risk, and the more frequently individual performance is measured and the results used to make payments, the easier it
is for the corporation to navigate changes in its strategic direction. All employees at Synygy—from entry-level people to well-tenured vice presidents—have a target quarterly bonus of between 5% and 25% of their base salary. The actual quarterly bonus depends in part on client satisfaction scores, in part on coworker evaluation scores, and in part on the individual’s goal achievement scores. In addition, the 50 or so people in the company who have sales quotas earn sales commissions, which are paid monthly. For most of the people in sales, the total target earnings (including quarterly bonuses and sales commissions) gives them an opportunity to double their base salary, although there is no cap on their opportunity to make money.

By linking the pay of all employees (and even some of Synygy’s external vendors) to the success of the company and to their personal success, by paying them at least quarterly (in alignment with the frequency of performance measurement), and by having sufficient pay at risk, Synygy has been able to successfully make many significant adjustments to our strategy over the years. These include the launch of our incentive compensation management software as a product, the rewrite of our product as a web-based application, the launch of additional performance management products, the shift in pricing strategy from subscription fees to up-front licenses (and most recently, back to subscription fees), the globalization of our workforce to provide 24/7 software development and professional services, and the shift back to emphasizing plan management outsourcing services.

Interestingly, the calculation of bonuses, sales commissions, and other rewards often requires sets of data and measures of performance that do not exist together in any single database within an organization. Sales commissions at Synygy, for example, are primarily determined based on invoices sent to clients. These data resides in the accounting system. The amount of sales commissions, however, is adjusted based on the gross profitability of a project, which requires data from Synygy’s time card system to determine the labor costs allocated to the project. It is also based on the level of client satisfaction, which requires data from the web-based system that manages client satisfaction surveys.
It is often the case that many diverse sets of data must be gathered and integrated for the calculation of individual rewards. The data must also be validated and cleansed to ensure accurate payments. Because the data must be integrated and validated to determine performance, the process for calculating rewards results in additional measures of organizational and individual performance that do no exist elsewhere in the organization.

Again, most executives would claim that they embrace the pay-for-performance concept, and in some cases they would be correct. More likely, they embrace it only for the sales force because it is the exceptional organization that is truly linking pay to the individual performance of the entire workforce. Because the Reward component is the “power steering” that enables an organization to rapidly change behaviors and orient people toward achieving the organization’s objectives, it may be the most important and have the greatest impact of the five components associated with creating a performance-driven organization.

COMPONENT FOUR: REPORT

Reporting is about providing timely information to executives, managers, and individuals about the performance of the organization and its people. As with the Measure component, reporting tends to have a strong financial and organizational orientation. It also tends to be heavily data oriented, but it also tends to be focused on one data source at a time, such as a profit and loss report showing changes in revenue and costs versus the prior quarter, a client satisfaction report summarizing satisfaction broken down by product line, or an incentive compensation report showing how much was paid in commissions in each sales region.

With good organizational reporting, management is able to see how the different entities that make up the organization are performing, including which initiatives are working, which projects are helping to achieve the organization’s strategic objectives, and which strategies are producing results.
The key factor in organizational reporting is not so much the collection of information but the sharing of information with the individuals who are working toward achieving the strategic objectives. By sharing information with them, we help them understand whether the organization is on track. Absent detailed information about the performance of those individuals, however, managers will not know who is helping to achieve these objectives, how they can improve, or what they need to do differently to help the organization achieve its objectives. This is why the integration of organizational and individual reporting is so important.

Synygy provides a good illustration of how organizational and individual reporting can be linked. The managers at Synygy have access to interdependency reports that show how each person is contributing to the departmental and company objectives. Through a series of red, yellow, and green lights, each manager can see the degree to which each person in that department or group is achieving or falling behind their goals. As a result, managers are able to redeploy resources, adjust goals, or otherwise address shortcomings before they become problems that keep the company from achieving its objectives.

Becoming a performance-driven organization means providing timely, accurate, and meaningful information to the appropriate audiences within the organization. It also means making sure that linkages between organizational and individual reporting are built to give management visibility into how the organization and its people are performing.

COMPONENT FIVE: ANALYZE

Often, the measuring and reporting of performance data are only as good as the prism through which people get to view the data, that is, how well people are able to interpret the numbers in a way that leads to purposeful action. Unfortunately, each person has a different prism—different experiences, skills, and capabilities—through which to analyze data. To address this lack of consistency and effectiveness, organizations are moving beyond reporting data to automating the analysis of data using rules, algorithms, and models.
The purpose of organizational analysis is to quickly adjust strategic objectives and the allocation of resources for the purpose of optimizing both the organization’s strategy and the execution of that strategy by the workforce. Good analysis addresses the issue of causality as a forward-looking process. If, for example, that hoped-for increase in market share never happens, does it matter whether it was the result of poor planning, bad research, low productivity, or a fundamental shift in industry or world economic conditions? Of course it matters—not as a prelude to assigning blame but as the foundation for more effective performance in the future.

The emphasis here is not on rounding up the usual suspects in case of poor performance, but determining what needs to be changed to improve future performance. As I noted in Chapter 2, organizations may fail to achieve an objective because (1) the strategy is poorly conceived (including the organization’s inability to fund it properly) or (2) the workforce fails to execute the strategy properly. The accurate identification of underlying causes for poor performance is important because it has significant implications for future strategies and their execution. To do this requires analysis of both the organization and the individuals in its workforce.

To again use Synygy as an example, the company was founded on the belief that salespeople should be selling rather than attempting to analyze their data. Why? Because, by their nature, many of the best salespeople are not that analytical. Even more important, they are expensive resources who should be spending their time with customers, not in front of their computers doing data queries. Synygy’s first solutions involved automating the analysis of data to create a consistent but unique analysis for each geographic region, product line, and level within the sales organization—a set of integrated analyses linking the organization and its people—to help each salesperson target their efforts, deliver the right messages to the right prospects, and sell more.

Obviously, management needs to analyze both the organization and its people to understand how the organization is performing. After all, it is individuals who are executing the strategy, and organizations need
to function as intelligent entities, continually learning from the experiences of their people, even (especially!) from their bad experiences. Becoming performance driven requires an integrated approach to analyzing data about the performance of the organization and its people.

WHY A UNIFIED APPROACH?

Why should you care about creating a performance-driven organization? Why do businesses need a unified view of performance management? The simple answer is that businesses need to get as much productivity as possible out of their workforce. People are expensive, and they need to work efficiently.

Think about it this way: The most efficient path from state A to goal B is to proceed in a straight line, but if people wander off course before they finally get to point B, they are being inefficient. The way to keep people on that straight-line path is to give them frequent feedback so that they are constantly changing their behavior and staying as close to the straight line as possible.

The keys to maximizing the efficiency of the entire organization are to (1) make sure that each individual has goals that are aligned with the strategic objectives of the organization, (2) provide each person with frequent feedback about their progress toward meeting their goals, and (3) reward them for achieving their goals.

If people know the goal, can chart a straight path to it, get frequent feedback about where they are relative to the straight line, and are rewarded for staying on the line, then they are far more likely to steer a straighter, more efficient path (see Figure 2).

If you are following the unified approach of performance management, you will be executing your strategy in a maximally efficient and effective manner.

In Chapters 4 through 12, I describe the five core components and nine parts of this unified model of performance management in greater detail, along with my thoughts on the role that each part plays in creating a performance-driven organization.
Creating the Performance-Driven Organization

Figure 2: The Performance-Managed Path

Unmanaged Path

Ideal Straight-Line Path

“Performance-Managed” Path

POINT A

POINT B
ALIGN

Visualize an organization as three concentric rings. The outermost ring is the highest level—the corporate level, the big picture, the strategic goals. It includes planning, budgeting, financial analysis, and objective setting. The middle ring contains the entities that make up the organization—the business units, departments, and groups. In the inner circle, at the core, are the individuals in the organization.

In a performance-driven organization, the various organizational entities line up with the big picture strategy in the outer ring, and the goals of the people at the core are aligned with the objectives of the entities that make up the organization. All the rings are in alignment.

Of the five components of the unified performance management model, the Align component is probably the most complex to implement—and yet it is the most crucial. It is the foundation for all the other components. Without it, nothing else has any context and nothing else effectively drives performance. It is also where the biggest return on investment can be found.

Interestingly, this is the exact opposite of where most organizations are spending their money and effort—with the Report component—largely because of the need to comply with government regulations. The Align component is where you should begin becoming performance
driven because it is what keeps the organization moving toward the future on the straightest, most efficient path possible.

If your organization looks like the one pictured on the top in Figure 3, the whole organization is aligned correctly to achieve its objectives. You are on the way to becoming a performance-driven organization. But if it looks more like the one pictured on the bottom, the energy of your people is being misdirected.

As I have in previous chapters, I want to emphasize that creating alignment is a process—actually, a set of interrelated processes. Long
before Synygy had a system for managing this process, we had a process for linking organizational objectives and individual goals. As we grew, and as the administrative burden grew, the process became more automated and systematized. Still, the process is what came first. An organization that wants to become performance driven must envision how such a process would work—given its own approach to running its business—and must think about who would be involved in the process, how frequently the process would be run, and what it would expect the outcomes of the process to be.

Part of the challenge in getting your arms around the Align component is because of the nature of the iterative and interrelated processes associated with the component. The diagram in Figure 4 gives you a picture of what I am talking about.

In the following two chapters, I break the Align component into its parts. In Chapter 4, I discuss alignment of the organization and its organizational entities. This includes defining the strategic objectives of the organization and setting and allocating resources and budgets that are needed to achieve the strategic objectives. In Chapter 5, I turn the focus to creating individual alignment. This includes cascading the organizational objectives down to individual goals, setting individual quotas and targets, and aligning individuals to opportunities.

Figure 4: Interrelated Alignment Processes
ALIGN THE ORGANIZATION

Aligning the organization provides a solid foundation on which all other performance management activities are built. This involves an iterative process of defining the organization’s strategic objectives, specifying resources, and setting budgets. I’ll take a detailed look at each of these steps shortly, but first I want to consider the overall benefits of aligning the organization.

It occurs to me that perhaps “benefits” isn’t the right word, unless we want to use it in the sense of “one of the benefits of drinking water is staying alive.” Frankly, I can’t imagine any business surviving for very long without at least some form of strategic alignment taking place. And, in fact, most organizations do practice alignment, even if only on an ad hoc or superficial basis. To become performance driven, however, requires a significantly more focused and meaningful effort.

When an organization is properly aligned—from objectives to resources to budgets—it knows the right things to work on, has the right resources and infrastructure pointed at these things, shares objectives and information across departments, exposes interdependencies among work groups, eliminates duplication of effort, avoids interdepartmental conflicts, and takes into account the impact of competition and the economy on organizational goals.

Because everyone is working toward common goals, the organization’s focus is sharper and its processes more efficient. Priorities for
every group are spelled out, and the concept of urgency grows out of an understanding of the work that needs to be done and why it needs to be done rather than being imposed through disembodied arguments contained in executive memos. With objectives—and a process for frequently reviewing objectives—in place, organizations are positioned to respond quickly to both outside pressures and internal realities. This is especially important in the case of publicly held companies, where stakeholder patience may dissipate at the first sign of a downturn in corporate performance. Corporations must be able to turn on a dime, but they can’t change unless they have a systematic process and a culture that enables such change to occur in an efficient and rapid manner.

When it comes to measuring, reporting, or analyzing organizational performance, how can you accomplish anything without first having a set of strategic objectives and associated performance metrics as a baseline to know what to measure, report, or analyze? Without strategic objectives, it would be impossible to tell how the organization is performing on the things that truly matter—those things that are driving the future. Yet, that is not how most organizations approach measuring, reporting, and analyzing. Sure, you can compare the organization’s financial performance against that of your competitors and the industry overall, but how much does that really tell you? Isn’t that really about the past? How does it help guide the future?

Without clear objectives or a well-defined strategy, employees may carry out their assigned tasks competently and even enthusiastically, but is the organization really moving forward with any purpose? Is it, in spite of double-digit growth or a soaring stock price, positioned where it needs to be for market leadership in the long term? In effect, it may be doing the wrong things in the right way.

If, on the other hand, objectives and associated performance metrics are clearly defined and rooted in a competent strategy, all subsequent effort that is invested in executing the steps of our performance management model is directed exactly where it should be. Moreover, if objectives, performance metrics, and strategies are clearly and effectively communicated, momentum toward achieving them can overcome flaws in executing subsequent steps.
Most organizations don’t always recognize that specific objectives are needed as a basis for any kind of meaningful evaluation of organizational performance. Although they often think of organizational performance in terms of financial metrics, these measures are not necessarily linked to specific organizational objectives, and a review of financial numbers by itself does not proactively enable the organization to look toward the future and what needs to be achieved or where there are gaps in capabilities that need to be filled.

Without specific objectives and criteria for evaluating performance, it’s also impossible to adapt to a volatile environment. For example, a few years ago, when some newly emerging software companies raised a couple hundred million dollars of venture capital money and entered the incentive compensation management market, I decided to shift Synygy’s focus from providing incentive compensation management outsourcing services to selling installed software.

A year later, when analysts were predicting a consolidation of our competitors and the emergence of big enterprise companies as the competition, we moved to expand our product footprint, through both internal development and an acquisition, so that we could complete against the big boys. A year after that, an information technology outsourcing trend caused us to move rapidly to lower our costs by utilizing overseas labor. Most recently, with the software industry trend toward software-as-service, Synygy reevaluated its positioning and came full circle by returning to its roots in subscription pricing and emphasizing application management and plan management outsourcing services. It seemed as if Synygy had to go through a major strategic change every year that involved realigning the objectives, resources, and budgets of the company.

When an organization adopts one of the many fragmented approaches to performance management, the need for rapid realignment is easily overlooked. If, for example, a company’s definition of performance is not rooted in dynamic, frequently adjusted organizational objectives, does the sales force really need any direction beyond “sell more than
you did last year”? Or does manufacturing really need to be told any more than “reduce the unit cost of everything you produce”?

Needless to say, sales, operations, research and development, human resources, and finance have their own justifiable but often very different ideas about what is important, but until everyone agrees on one set of shared goals, you might as well be managing five separate companies.

Synygy provides a good example of how strategic objectives can—and should—affect cross-departmental objectives. We wanted to establish a major competitive advantage by making our implementations twice as fast as those of our competitors. That’s just one strategic objective, but consider the ramifications at the departmental level. The software organization needed to create functionality to make our people more efficient at configuring the software. Our professional services group had to redesign its project management process and the implementation methodology. Sales and marketing had to change their messages, as well as how they approached prospects and clients. Training needed to teach these new processes, new software, and new methodologies. Externally, we needed to identify resources that could help us in this transition. Internally, we needed to reorganize roles and responsibilities.

In a large company, there is no such thing as a small change. If you’re able to make a change in strategy without affecting departments in every corner of the company, it probably means that your departments are operating within separate silos. This is both a symptom and a cause of poor performance management. What you’re faced with are organizations working at cross-purposes, resulting in wasted funding for nonessential projects, lack of sufficient funding for key objectives, and a significantly lower chance of meeting strategic objectives. When, on the other hand, all departments are working together toward common organizational goals, the value of the whole is indeed greater than the sum of its parts. There is greater awareness across the organization about what everyone is meant to achieve, a greater possibility of coordination among organizations, less waste because budgets are based on key objectives, and a much improved chance of achieving those objectives.
Let’s look now at the two steps involved in aligning the organization:

- Defining organizational objectives
- Setting and allocating resources and budgets

DEFINING ORGANIZATIONAL OBJECTIVES

Organizations employ performance management methodologies primarily to execute their strategies more effectively. So why is it that, according to Fortune magazine, fewer than 10% of all corporate strategies are effectively formulated and executed?

Ineffective execution is hardly a mystery. Any book that talks about motivating employees, raising morale, and increasing productivity—and there is no shortage of books on those topics—is really talking about how to execute more effectively. Poor execution is easily recognizable, which is why it’s usually the explanation offered when things go wrong. In fact, some managers all but proclaim poor execution the culprit even before execution has begun, including some statement such as “execution is the key to our success” in the strategic plan. Translation: If things don’t work out, it’s your fault, not ours.

But what about ineffective strategy formulation? Experience tells us—or by now, it should tell us—that some strategies are simply not built for execution. Some may be impossible because of inadequate funding, poor timing, insufficient human resources, or even conceptual fuzziness. Some may be so far off track that even flawless execution cannot succeed in yielding the desired results. To improve their odds of developing a strategy that has at least some chance of success, many organizations have adopted formal methodologies for setting their strategic objectives. These include balanced scorecard and six sigma, although there are a wide variety of lesser known and company-specific methodologies for objective setting.

In general, all such methodologies—at least those that are at least somewhat effective—take a “systems thinking” approach that reflects the interdependencies among the strategic objectives of the various organizational entities. The identification and nurturing of these interdependencies
is critical to the overall strategic success of the organization. These methodologies also explicitly link each objective to a measure of performance, typically in the form of quantitative data, but minimally as a defined set of “objectively subjective” criteria.

Setting strategic objectives is not simply a matter of putting down on paper what you hope to achieve. It also requires associating those objectives with expected benefits, costs, and resource requirements. In this way, management can gain a complete picture of how particular strategic objectives will affect the organization’s staffing needs and financial performance. Not addressing these possible effects raises the prospect of a failed outcome in spite of flawless execution.

There are important benefits to methodologically defining organizational objectives:

• **Execute strategy more effectively**—Successful strategy execution requires every executive and manager to be on the same page, and this requires coordination across organizational entities. When the divisions, departments, and individuals are working toward objectives that are aligned in one all-encompassing strategy, the organization has a shared sense of purpose and is able to more effectively execute strategy.

• **Improve organizational productivity**—When all parts of the organization are working with each other toward a common set of objectives rather than competing to achieve different objectives at each other’s expense, the organization will be able to do more with fewer resources. As a result, a win for one is a win for all—and the organization’s productivity improves.

• **Keep everyone on the shortest path to success**—Well-defined objectives put managers and executives on notice as to exactly what is expected of them. But well-crafted objectives also become self-policing by eliminating the option of operating in a vacuum. With well-defined objectives that reflect the organization’s interdependencies, any weak link will be exposed sooner rather than later and any shortfall in performance can be corrected before it’s too late to do something about it.
SETTING AND ALLOCATING RESOURCES AND BUDGETS

As the foundation for measuring organizational performance (which we will discuss in Chapter 6), an organization’s strategic objectives must be associated with metrics of performance. Although there is an unlimited number of possible metrics, the measures of performance are very often quantitative, absolute goals associated with budgets or resources.

For example, an objective may be to reduce research and development costs to 11% of revenue. When it comes to measuring performance, this metric is the denominator that is then combined with actual research and development costs as a percentage of revenue to determine objective achievement. On the resource side, an objective may be to increase the total number of salespeople to 1,000. This 1,000-person target then becomes the metric for assessing objective achievement.

Setting and allocating budgets and resources are critical parts of the objective-setting process. Yet most organizations do not have an accurate understanding of the impact of each strategic objective on the forecasted financial performance of the organization and the resources that are required to achieve each objective. What they usually lack is a process for creating a linkage between objectives, resources, and budgets.

Budgets are done all the time. Every organization has a budget, although most budgets are typically phrased in terms of a percentage change versus the prior year’s revenue and expenditures—which is a huge mistake. Depending on the size of the organization, a budget should factor in dozens or even hundreds of data points related to individual strategic objectives. More does not always mean better and, in fact, more can mean that the organization is wasting money on things not related to the strategic objectives.

A central requirement for any truly performance-driven budgeting process is that it directly links the strategic objectives and the resources needed to achieve them to the forecasted effects on expected revenue, planned expenses, and needed investments.
Such a process is iterative in nature. To use a simple example, say you go shopping for a car without ever looking at the price tags of any of the vehicles. When you finally find the perfect car, you look at the price, and you realize you can’t afford it. What do you do? You start asking some questions to figure out what will achieve your objective of finding the perfect car at a price you can afford. You begin to make trade-offs and adjust your objective—or you raise the price you are willing to spend—in an iterative process until your objective and budget are in alignment.

What about the other nonmonetary resources needed to achieve an objective? Well, think about it: What is typically the most expensive resource in any organization? If you said the workforce, you would be right. You probably invest a lot in the people who work for you because you know that the quality of your workforce will always have a significant impact on your organization’s performance. Qualitatively speaking, we know exactly what to do about our workforce—go out and get the best people we can find. But what about quantitatively? Exactly how much time and effort do you invest in determining the optimal size and structure of the workforce and the allocation of that workforce across your organization to work on the various objectives?

Is it important to make this determination? I’d say so. Think about your sales force—a critical resource, without question. Yet how often do organizations consider—and I mean seriously and methodologically consider—whether they have the optimal number of salespeople working on each product line, in each customer segment, or in each geographic region? Some of the issues that are factored into setting the sales force’s size and structure are the split between direct and indirect channels, the appropriate number of salespeople needed to penetrate the organization’s target markets, and the costs of the sales resources. After doing these kinds of analyses, you may find that it is possible to both increase revenue and reduce selling expenses by having fewer salespeople.

But what about the rest of the organization? Departments other than the sales organization also have objectives, budgets, and resources—whether they are human, material, or equipment—that must be optimally
sized and structured. By optimally aligning the right resources to the various objectives, you can do more with less.

Perhaps the most important operational consideration in this area is that optimal size and structure are not static concepts. As conditions in the marketplace change, organizations must be able to adapt quickly, making workforce changes that preserve and, wherever possible, improve competitive standing. For this to occur, organizations must be prepared for sudden change. They must also evaluate size and structure regularly and do so using accurate data and timely performance measures. There are few organizational changes worse than those that don’t need to be made, particularly if they have a negative impact on performance. In many cases, the problem can be traced to using bad data, measuring performance against a standard that no longer has any relevance in a changing marketplace, or not being willing to face the reality of declining performance.

There are several benefits to clearly setting and allocating resources and budgets:

- **Maximize return on investment**—Every strategic objective has revenues, costs, and resources associated with it. By going through the iterative process of prioritizing objectives, setting budgets, and allocating resources, an organization is able to determine those objectives that are most likely to have the greatest return on investment.
- **Minimize costs**—Nothing can maximize the benefits of a great strategy more that efficiently spending the budget and effectively utilizing the resources associated with achieving the organizational objectives. The more an organization stays of the shortest path to executing its objectives, the less it will cost to achieve them.
- **Quickly adapt to change**—Being able to turn on a dime when business conditions change is key to creating a performance-driven organization. By having a tight linkage between objectives, resources, and budgets, the organization can quickly and easily identify the expected impact of changes in strategy and make adjustments to budgets and resources as the objectives change.
In a sense, defining strategic objectives for the organization and then setting and allocating resources and budgets constitutes only half of an alignment. In fact, it is less than half. Without individuals in the workforce who are actively engaged in achieving goals that are aligned with the organization’s objectives, those objectives stand very little chance of being met.

When the work of individuals is aligned with company objectives, employees are more focused, which makes them better able to get a sense of how their work is contributing to company success and to adopt more efficient and productive behavior patterns. There is also a rational, results-oriented basis for designing specific performance measures to hold people accountable, providing useful feedback, and rewarding desirable behavior.

In addition, individual goals should be aligned with the goals of other individuals to achieve a common set of organizational objectives. Although we can certainly do without yet another invocation of the team cliche as it applies to business, we cannot deny that a collaborative experience and cooperative environment are far more likely to emerge if there is a common sense of purpose across the organization.

One attribute that is often found among members of a team, in any context, is the desire to not let down their fellow team members. When individuals begin to feel a responsibility to others in the organization, you have the foundation for positive cultural change.
other hand, employees are off doing their own thing, they feel little or no reason to consider how their work might dovetail or clash with what others are doing. The resulting inefficiency means a loss of productivity.

Furthermore, conflicting purposes among the workforce make it unlikely that individuals will be motivated to take responsibility for what their colleagues are trying to achieve. Rather than seeing positive cultural change, we find some workers becoming increasingly isolated in their outlook and others engaging, intentionally or otherwise, in unhealthy competition with others. Both intuitively and empirically, interdependencies are the key to building momentum for creation of a performance-driven culture.

There are three steps to aligning individuals and creating these human interdependencies:

• Cascading objectives down to individual goals
• Setting individual quotas and targets
• Aligning individuals to opportunities

Taken together, these steps provide a context for what employees do. Although having a context may not sound as significant as some of the more concrete steps associated with performance management, from the standpoint of employee motivation and productivity, creating such a context is probably the single most important thing that management can do.

To borrow from an old story, it is the difference between seeing yourself as a bricklayer and seeing yourself as a builder of churches. By supplying a context and then encouraging employees—in part, through a carefully aligned incentive compensation system—to adapt their behavior accordingly, management effectively turns the ship around and points it in the right direction. People are able to prioritize in a way that benefits them and the organization; to grow personally and professionally; to make the right trade-offs in time and resources; to think bigger or differently; and to get beyond the parochial, narrowly focused view of each individual’s work responsibilities that pervades the workforce. Having a context enables people to see why what they are doing is important to the company, which leads to greater motivation and job satisfaction.
In this opening phase of a comprehensive performance management process, the organization defines the skills, training, and development needed to achieve its goals and, by association, the corresponding departmental and individual goals. By assessing individual skills and assigning specific objectives to employees who are most capable of meeting them, the organization increases the chances that those objectives will, in fact, be met.

Providing a budget and other resources that are consistent with those requirements—and giving people the right to ask for resources to achieve their goals—helps to energize and empower the workforce. And where there are goals, there are benchmarks. Let’s not forget about the therapeutic effects of having benchmarks—specifically, seeing exactly how your own performance has grown in comparison to some known metric. For managers, it is a lot easier to sell challenging goals to the workforce when there is a tangible success threshold for employees to target.

To use Synygy as an example, when we decided to increase our global operations to provide 24/7 professional services, we set an initial goal of having 100 employees outside of the United States within a year. The overarching benefits of reduced costs, enhanced service to clients, and better positioning for long-term competitiveness may have been enough to motivate the senior management team to achieve this strategic objective, but it was the specific numerical performance measure—the magnitude of the 100 person target—and the linking of intermediate performance milestones to the quarterly bonuses of individuals working toward the objective that resulted in rapid shifts in thinking and behavior.

Once strategies and objectives are defined, they need to be broken down into actions and steps that departments and individuals can work on and be held accountable for.

**Cascading Objectives Down to Individual Goals**

When people talk about performance management and performance measures in relation to strategic objectives, they are most often talking
about organizational performance, as if the organization were the lowest-level entity responsible for executing elements of the enterprise strategy.

What many executives don’t seem to realize—something I would have assumed was too obvious to mention if I didn’t know better—is that it is the **individuals** working within an organization who collectively define the organization’s performance and its progress toward achieving its strategic objectives. Indeed, the question we should be asking is this: Where are the tools, methodologies, and processes to fill the very practical need of closely tying organizational objectives to individual activities and goals?

Another obvious but often overlooked point: The linkage between the organization and its individuals just described occurs when the strategic objectives of the organization’s various entities are cascaded down into the organizational hierarchy, with each individual in the workforce being assigned goals that support the strategic objectives. This is accomplished by creating a specific set of goals for each individual so that all members of the workforce understand the activities that they are expected to perform, how their performance will be measured, and how their performance will help the organization achieve its strategic objectives. Furthermore, each goal is weighted so that all employees know where to concentrate their efforts.

Some, no doubt, would question the wisdom of this. After all, do we really want people thinking about—or spending time working on—something that is not directly related to their narrowly defined jobs?

Any number of analogies spring to mind. For example, if I’m managing a baseball team, shouldn’t I be interested in having my players play only their respective positions? I certainly don’t (the argument goes) want players worrying about what other players are doing because then no one is focusing on his own assignment—but of course, the baseball team will only be effective if it operates with knowledge of what each team member is doing. Everyone performs better when individual responsibilities are placed in a single, unifying context. In other words, everyone’s assignment has an additional significance—over and above
its behavioral details—that ties the assignment to a greater collective purpose.

Perhaps a better model for the organization is an ant colony. Every ant has its function, and to the outside observer, there appears to be no rhyme or reason to the multidirectional scurrying about of all those tiny creatures. Yet we know from carefully designed experiments and other observations that what all those ants are doing is readily explicable within the context of the colony’s objective. In fact, when ants are purposefully separated by physical barriers, their activities remain consistent within this larger context. Similarly, in an organization, individual activities need not make sense—indeed, they ought to be, by definition, without meaning—unless they are given a context through reference to the organization’s goals.

Goals are dynamic. They change—or more precisely, they need to change—frequently in response to any number of factors, both external and internal. The marketplace itself can change dramatically in response to political, social, or economic stimuli. Changes in technology, government regulations, interest rates, or the stability of a foreign government often occur, with almost no way to predict what can throw a monkey wrench into your best-laid plans. And this is exactly why setting goals annually or semiannually makes no sense.

The world doesn’t work that way anymore (assuming it ever did). Setting a goal today with the expectation that it will still be a priority a year from now is a little like identifying the state-of-the-art computer today that you intend to purchase in a year. To ensure your organization’s best chance of adapting to change quickly enough, the process of cascading objectives and setting and evaluating individual goals must be done at least quarterly.

By frequently cascading objectives down into the organization, management can realize many benefits:

• *Focus workforce efforts*—The natural result of focusing people on activities that directly align with the organization’s strategic objectives is improved productivity. The major problem faced by many
organizations, especially large ones, is not so much a lack of effort but a lack of focus on what is most important to achieving the organization’s objectives. Knowing exactly where to direct the workforce’s energies works wonders for productivity.

• *Enhance overall organizational performance*—When individuals lack a clear understanding of how they impact the enterprise strategy, they are free to decide for themselves where they should spend their time. On the other hand, when the entire workforce understands how their activities fit into the organization’s strategy, overall performance is enhanced.

• *Outmaneuver the competition*—If a competitor sets objectives once a year and has little or no process for cascading those objectives down to the workforce, they will be no match for an organization that sets objectives quarterly and has the goals of its entire workforce aligned to those objectives. When you accomplish this, you are able to quickly adjust your strategy, change workforce behaviors, and beat the competition.

**SETTING INDIVIDUAL QUOTAS AND TARGETS**

As with organizational goals and the linkages among objectives, budgets, and resources, the goals of individuals are often evaluated against quotas or targets.

Although it is not always the case, quotas are most often associated with revenue targets for each salesperson; however, strictly speaking, a quota is any numerical target expressed either in absolute terms or as a percentage of some overall goal. The metric used in setting a quota might be revenue, margins, new customers, widgets, or any other unit of production. Quotas can be applied to any number of different types of roles throughout an organization.

For parts of the organization other than sales, the metric used in setting such targets will obviously reflect the nature of the work performed. In the case of a call center, it might be the number of calls processed. For manufacturing, it could be the number of widgets produced. For the
public relations group, it might be the number of favorable mentions in targeted media for a given quarter, or perhaps the number of inquiries following a press event. All are quotas or targets.

For a sales force, the process of setting quotas involves allocating the company’s sales objectives (reflected in the revenue budget or other financial target) down into the sales force (reflected in the allocation of the budget or target for each salesperson) using one of several possible mathematical algorithms. Typically, this is done by developing a benchmark for market potential in each territory, balancing potential against workload, and then allowing field managers to make adjustments based on local information. The closer this alignment comes to reflecting the relative opportunity within each territory, the greater the overall success the organization will have in meeting its sales revenue targets.

Similarly, for other parts of the organization, the process for allocating a quota or target should be tied to the organization’s objectives and resources.

By properly setting individual quotas and targets, management can:

- **Increase workforce productivity**—To drive performance, employees must understand how their performance will be assessed. A common measure is a quota or other absolute numerical target that is the foundation for determining quota or goal attainment. With each person being held accountable for achieving their quota or target, changes in workforce behavior and increases in productivity occur.

- **Maximize performance**—When combined with proper alignment of the workforce to opportunities and the ability of each person to see how their quotas are made achievable as a result of these opportunities, the workforce will be naturally aligned to maximize their performance and the performance of the entire organization.

- **Hold people accountable**—Quotas and targets, which are an individual’s contribution toward the revenue, margin, customer acquisition, widget production, or other objective of the organization, define what is expected from each person. By setting quotas and
targets and then measuring quota attainment and goal achievement and linking performance to pay, you will hold people accountable for achieving their goals.

ALIGNING INDIVIDUALS WITH OPPORTUNITIES

In addition to setting quotas and targets, there is one other parallel process that must occur when aligning the organization. It’s rooted in a simple formula for being more profitable: Invest your resources where the opportunities are greatest. I know—this sounds a little like Willie Sutton’s explanation of why he robbed banks, but somehow this simple truth is ignored in many organizations.

Strategic objectives are, by definition, opportunities. What makes an objective strategic—whether it involves entry into a new market, greater name recognition, or any other organizational initiative—is its potential for generating more revenue, reduced costs, and increased profit, if not immediately then over the long term. In effect, the organization sees an opportunity and formally announces its intention to go after it.

To produce optimal results—to take advantage of a strategic opportunity—each person in the workforce must be aligned with those areas of greatest opportunity. The work that is done must be consistent with and contribute to the achievement of the organizational objectives associated with the opportunity. Failure to do so results in missed revenue opportunities in the case of the sales force and wasted resources or higher costs throughout the rest of the enterprise.

In the case of the sales force, this means aligning territories or salespeople with clients, prospects, or geographic areas. It might also mean structuring the sales force to align with certain specialties or industries—customers who are most likely to buy your products or services.

Sales alignments are done in a similar manner to sales quota setting. Managers should then be allowed to adjust alignments based on their knowledge of local business conditions. Any adjustment to the alignments should then have a corresponding adjustment to quotas.
The need for productively aligning the workforce with its work is not unique to the sales force. Manufacturing companies, for example, align their staff with production needs. Professional service organizations align their consultants with the most promising projects in terms of revenue, new business, and opportunities for market expansion. And you don’t need to look much beyond the configuration of the research and development staff of pharmaceutical and high-tech companies to see which new initiatives are viewed as the best opportunities.

If the alignment of the workforce with opportunities doesn’t support the strategy, even the best efforts of the workforce may not bring the desired results, and the problem usually doesn’t end there. Both management and employees are likely to feel dissatisfied and discouraged about subpar performance—management primarily for lack of results and employees for ineffectiveness and rewards that don’t reflect their hard work. In addition, all may feel frustrated over failings that were, unknownst to them, beyond their control from the start.

By properly aligning the workforce with opportunities, management can:

- **Maximize sales**—Just as presidential candidates now know in which states—and even which specific counties and ZIP codes—they need to concentrate their political advertising and public appearances, organizations must determine where revenue and profit opportunities exist and where sales activity needs to be focused. No longer can an organization hope to be competitive without effectively aligning the sales force with the best opportunities.
- **Maximize throughput**—Optimizing resource utilization across the entire organization is at the heart of minimizing the cost of strategy execution. To do this requires aligning workers with the work that will yield the maximum return. If it is not, then achieving your objective may also mean having to throw back a significant portion of your return on investment in the form of excess costs. By aligning the right workers with the right jobs, you will maximize throughput and lower costs.
• **Improve morale and job satisfaction**—When you use a fair, well-understood, structured process for aligning salespeople with the right opportunities and individuals with the right work, people are positioned for greater success, morale increases, and job satisfaction goes up.
Depending on which of the various performance management software companies and systems integrators you talk to—and depending on what they are trying to sell you—you might be told that performance measurement is the most important part of performance management.

Of course, they tend to be talking about the performance of the organization—especially financial measures of performance—when they do so. They almost completely ignore the measurement of individual performance. They also tend to ignore the foundation for measurement, which is the setting of strategic objectives, the cascading of those objectives down into the workforce, and other aspects of aligning the organization and its individuals.

This narrow view of measurement prompts me to ask: How in the world can you figure out what you want to measure without first knowing why you are measuring performance? And does it not make sense to measure the performance of both the organization and the workforce? Does it not make sense to measure both the financial and human aspects of performance?

The Measure component of the performance management model builds on the Align foundation. To become performance driven, an organization must directly link organizational objectives and individual
goals—and their associated metrics of performance—with the measurement of actual organizational and individual performance. As Figure 5 illustrates, the objectives and goals give the context for measurement, and the associated metrics tell you what to measure.

The Measure component also forms the structure for the Reward, Report, and Analyze components of performance management. Measurement is of critical value in linking pay to performance and in laying out a feedback mechanism that will allow you to adjust your strategy and tactics over time.

In Chapter 6, I discuss the measurement of organizational performance and its linkage to strategic objectives, resources, and budgets. In Chapter 7, I discuss measurement of individual performance and its linkage to individual goals, quotas, and targets.
Why measure the performance of the organization? For many, the simple answer is “because we have to” or “because the government requires us to” or “because that is how you run a business,” but does this sort of thinking help drive an organization’s performance in any real sense? Is this kind of formulaic, mostly finance-based performance measure of any value in shaping a forward-looking strategy? I suggest that it does nothing but tell the world how much money you made and how much it cost you to do so—undoubtedly a subject of great importance to your shareholders—but does it help you implement your strategy and ensure that you are moving forward in a way that will enable you to be in business and remain competitive over the next five years?

Think about the answer to these questions in this way: You wouldn’t drive a car by looking only in the rearview mirror, yet that’s exactly what an organization does when it focuses its performance measurement on the past—on its historical financial performance—rather than on what needs to be measured to understand whether it is on the shortest, most efficient path to achieving its strategic objectives.
In fact, most organizations do a pretty good job of watching the road behind them—of measuring financial performance. After all, you can’t report what you don’t measure, and with increasing government regulations around financial reporting, companies and their executives now face stiff penalties for failing to accurately report their finances.

Notwithstanding the burden and cost of these requirements, I think most people would agree that the greater emphasis on financial measurement and reporting mandated by government regulations is a good thing. Bear in mind, though, that an organization’s financial performance holds different value for different audiences. For customers and investors, it’s a matter of having access to reliable information with which to evaluate the wisdom of continuing with or entering into a business or investment relationship. For corporate management, reliable information is needed to know whether the organization is spending its budget according to plan. For employees, financial information provides a sense of how the organization is performing.

However, because of the time spent complying with government regulations—and the resulting emphasis on accurately measuring financial performance—more organizations than ever are failing to measure organizational performance effectively. That’s because when organizations focus on financial information, it is budgets—and not a more comprehensive set of metrics associated with the organization’s objectives—that become the yardstick for measuring performance.

Gartner Research says that, although drivers for improving performance come from several departments—sales, marketing, manufacturing, services, and others—“it is typically the finance department that drives the business-planning initiative.” Gartner believes that the growing use of rolling forecasts will compel companies to “focus more on nonfinancial metrics that directly reflect the business activities for which business managers are responsible,” and they go on to note that “successful organizations divide their efforts over many measurement areas.”

Gartner suggests that organizations should measure the following areas:
• Productivity, which analyzes the resources used to create a business output
• Quality, which measures the percentage of errors in a given process
• Timeliness, which determines adherence to set delivery schedules
• Utilization, which is linked to productivity and determines the relative effectiveness of resource allocation
• Cost, which is the most common measure of the investment required to create a product or service

Gartner also says, “As no single measure can capture all aspects of an organization’s performance, no single level of measure can be used throughout the organization.” Organizations should use “SMART” measures (specific, measurable, action-oriented, relevant, and timely) for “tailoring messages to each level within the organization.”

Measuring both financial and nonfinancial performance is a focal point of some of the popular approaches to performance management at the organizational level. The balanced scorecard approach, for example, uses the concept of “leading measures,” which focus on future rather than past (primarily financial) performance. The idea is to balance these prospective and retrospective components of performance measurement. These and other methodologies attempt to link strategic objectives to key performance indicators (KPIs) that enable organizations to measure how well they are executing their objectives.

ASSESSING PERFORMANCE OF THE ORGANIZATION

There are varying approaches to thinking about how much to measure—from measuring only financial performance to measuring everything needed to determine objective achievement to measuring everything you can possibly measure so that data analysts can dig deeply into the assessment of organizational performance.

I have already laid out the case for why measuring only financial performance does not help drive performance. A more middle-of-the-road approach is described by Celia Spitz, vice president of planning and
analysis at Vitas Healthcare Corp, who says her company’s approach to measurement is determining “what the critical bits of information are that make a difference in a business,” accompanied by a warning that “if you don’t, that’s just regurgitating data for analysis-paralysis and doesn’t tell you anything.”

At the extreme end of the spectrum is the notion that organizations should measure everything. Well, maybe not everything, but I want to run with this thought for now to make a point. In fact, many organizations actually believe they can create massive data warehouses and related systems to do something pretty close to this.

The reasoning behind measuring everything possible is sound. The assumption is that by combining disparate data sources from both inside and outside the organization in meaningful ways, you will gain insight into both financial and nonfinancial measures of organizational performance and be able to explain why performance is occurring—and maybe even predict future performance.

But, to continue with this line of thought, because you don’t know exactly which causal variables will affect performance today and in the future, planning for such a comprehensive process of measurement means attempting to collect every possible piece of data in the hopes that, perhaps someday, a group of exceptionally smart data analysts will uncover hitherto undocumented causality (or, at best, correlation) between variables that could be ascertained only by including every possible measure within some grand system.

The reality, of course, is that collecting such vast amounts of data and attempting to turn them into meaningful measures of performance represents increased administrative overhead, and the more data, the greater the overhead. More importantly, it will be impossible to prepare for every possible measurement ever needed. By the time you figure out what you think you need to measure—even if you have the underlying data readily available—the organization and its objectives will have changed.

You can see, therefore, how an organization could easily end up measuring too much, wasting a lot of time and money in the attempt, and hampering the flexibility of the organization to adapt to change.
So what’s the right amount to measure? To me it’s rather obvious, at least in the context of the performance management model I’ve laid out for you: An organization should measure only those things necessary to determine objective achievement and to gain insight into the factors contributing to the success or failure of achieving the objectives.

Here is a simple rule that is ignored more often than you’d think: Measure only those activities that are most likely to drive performance. Some organizations measure activities in areas that have no bearing on performance—as if someone long ago decreed that certain areas must always be measured, even if the results are never used in any calculation of performance. Senior management often points proudly to the vast number of measurements it tracks, as if the collection of data were the end of a process rather than its beginning. So here’s a simple corollary to the simple rule: No one gets points for collecting data that aren’t used.

Of course, even the most basic measurements can prompt a need for numerous ancillary measurements. Take, for example, corporate profits. We measure this by looking at revenues and costs. But what else is included in these two measurements? Do we not have various types of revenues and costs? And for each of those types, do we not have a series of key drivers? And for each of those drivers, might there not be various data-yielding activities contributing to the outcome at the “parent” level? What we’re really talking about is a “measure tree” (as illustrated in Figure 6).

Organizations can certainly handle all these measurements without using a picture, but representing what needs to be measured in a tree drawing or some other schematic can help everyone involved to visualize what needs to be measured and why. This type of dependence analysis is part of the balanced scorecard and similar objective-setting methodologies.

**FIGURING OUT WHAT TO MEASURE**

One way of looking at what to measure is this: What gets measured, gets done! If, by definition, it is your organization’s objectives that you
want to have successfully executed, you need to measure objective achievement. It is objective measurement that defines and further clarifies what really constitutes success for a given objective.

Suppose, for example, that a company’s goal is to grow sales by 10%. That sounds like a worthy goal, but just having an objective to grow sales and an associated performance measure of percentage growth in sales is not sufficient. That’s because we need to define a set of organizational objectives that specify how the overall company goal will be accomplished and measured. This may involve specifying the desired growth of specific products or services, customers, or channels and setting objectives for how each of those individual growth goals will be accomplished.

If you don’t specify how a goal is to be achieved, employees will be left to exercise their own judgment as to what constitutes the most promising path to success. But even if Bill and Tom and Mary and Jane are all capable of exercising fine judgment, it is still possible—and in all likelihood, probable—that each will reasonably conclude that the key to
achieving growth is something different from what the others believe it to be. What you’re left with is everyone agreeing on the same goal but adopting conflicting objectives for getting there, effectively torpedoing any chance your organization has of achieving that objective.

Measurement also gives you insight into why success or failure occurred so that you can adapt your objectives over time. This feedback and adjustment mechanism is a valuable part of measurement, enabling you to refine your strategy and action plan as circumstances dictate. Without progress measurements to provide periodic feedback that can be dynamically factored into your strategy and its execution, you’re left with the choice between sticking with a losing plan or taking a wild guess as to how it should be changed.

In other words, are we failing to meet our growth objective because of poor strategy, poor execution, a down market, the effects of a natural disaster, or some combination of these factors? Equally important, if we are succeeding, is it because of something we did or because of some external factor over which we have no control? Measuring organizational performance allows you to make needed adjustments based on the right considerations. If we know that one particular function is a bottleneck, we are in a position to channel resources from somewhere else that can afford to part with them without compromising overall organizational effectiveness.

Frequent measurement is crucial to this feedback mechanism. The consequence of infrequent measurement is that you will be making large adjustments to objectives farther apart in time—if yours is a typical corporation, perhaps on an annual basis—rather than more frequent monthly or quarterly adjustments.

By focusing measurement on objective performance and by having a sufficient frequency of measurement for rapidly adjusting objectives, you will get a better result from overall execution even if the initial strategy has some serious flaws. That’s because the results provide you with far more usable data with which to fashion the smaller, more frequent changes that may be needed to keep your organization on course toward meeting its strategic objectives.
Meaningful measurement almost always depends, of course, on the setting of meaningful objectives and a thorough understanding of possible unintended consequences.

For example, *Computerworld* tells of a federal agency located in central Virginia that selected a third party to handle its hardware maintenance during the late 1970s. As part of its contract with the agency, the company guaranteed that it would have a first-response technician on site within two hours of receiving a call. Some in the agency couldn’t help but be impressed by this level of customer service, especially because the company’s nearest maintenance center was a good three hours away. The first time that the company had to send a technician, agency employees in the computer room saw “a huge man sitting on a stool wearing bib overalls, a grease-covered cap and tall rubber boots. And between the stool and the door, the previously pristine facility is littered with twigs, manure and mud.”\(^5\) It turns out that the man was a local farmer with no technical training, retained by the maintenance company for the sole purpose of showing up on site within two hours, declaring that he couldn’t solve the problem, and then calling in secondary support. How satisfied do you think that agency was with the prompt response?

There is no shortage of other examples of organizations using the wrong performance measures to help achieve an objective. Take restaurants, which, in trying to maximize revenue, may seek improvement in the rate at which they turn over tables. If you can get three seatings at a table in an evening rather than two seatings, you can, at least in theory, increase revenue by 50%. The problem, of course, is that the table turning has a downside. Most people don’t like to be rushed when they’re eating in a restaurant. Making service and cleanup more efficient is a good thing that could very well increase customer satisfaction and, with it, revenue. However, when turning tables faster becomes the measure of success, with no limits placed on the magnitude of the “achievement,” the impact on revenue is likely to be the opposite of the intended result.
There are several benefits to defining measures associated with each objective and to frequently measuring organizational performance:

- **Execute strategy more effectively**—By having both financial and nonfinancial measures associated with objective achievement, and by reinforcing organizational objectives through frequent measurement of performance, you are able to keep the organization on the most efficient path to executing your strategy.

- **Adapt more quickly**—When an organization is able to continuously see how it is progressing toward objective achievement, it is able more quickly to adapt to needed changes in objectives, resources, and budgets.

- **Instill an increased sense of accountability among executives**—When executives know that objective achievement is measured at least quarterly (rather than on an annual basis), they are far more likely to be attentive to factors that could have an impact on objective achievement—especially if objective achievement is linked to pay.

**ENDNOTES**

3. Ibid., pp. 2–3
Measurement of organizational performance tends to be financially oriented, whereas individual performance measurement tends to be human resources (HR) oriented. It is most often associated with an annual performance review and typically looked on by managers and employees alike as an administrative hassle or something the HR department forces managers to do.

As if people in HR were government regulators requiring timely compliance with financial reporting requirements, executives and managers dutifully (albeit reluctantly) fill in the proper forms about their staff, lest they be scolded for shirking their managerial duties. It’s no wonder that non-HR executives are often complaining about HR adding so little value to the organization. How can anything that appears to be so purely administrative in nature be viewed as adding value?

For somewhat more enlightened organizations, measurement of individual performance might also address the skills employees have, how well they are using those skills, how much they have contributed to customer satisfaction, how well they work with their colleagues, and to what extent they achieved their (typically annual) objectives.

Of course, there are exceptions to the HR-centric view of individual performance measurement, such as when individual salespeople are measured on quota attainment, when production workers are measured on...
activity versus targets, or when managers are measured on budget variance, resource utilization, or some other financially oriented measure of organizational performance that is linked to their individual performance.

But it is only in the most advanced organizations that the measurement of individuals has anything directly to do with helping the organization achieve its strategic objectives. For this to occur, there needs to be a process for setting and cascading strategic objectives down into the workforce, along with associated metrics of individual performance. Without this clear link to individual goal achievement, the most critical aspect of individual performance is not being measured—and everything else is indeed just an administrative hassle.

Setting workforce goals is crucial to increasing productivity and becoming a performance-driven enterprise, as is having the right workers in place. Individuals who lack the skills to perform their jobs productively will not be able to deliver the desired outcomes. We know intuitively that just because Steve is a great salesperson doesn’t automatically mean he’ll make a great—or even a minimally competent—chief financial officer. Yet “misplaced” employees—often the result of well-intended promotions—are a fact of life in virtually every large corporation and even in many that are not so large. To ensure that individuals have what it takes to do the job—and to achieve their individual goals—management must define a set of desired skills for each role in the organization, together with objective criteria for determining competence in that role.

Also needed is a consistent, structured, frequent workforce performance review process. Evaluation of each individual should include input from coworkers, managers, subordinates, and perhaps even from clients and partners. Employees who hope to advance in the organization need to be able to work with others.

**Evaluating Performance of Individuals**

If we begin with the somewhat unconventional premise that the goal of individual performance measurement is to provide data needed to help employees achieve their goals—and thereby help the organization
achieve its objectives—it takes us down a very different path for measuring the performance of individuals.

Measuring individual performance through a tight link to goal achievement defines expectations for your employees and, in so doing, provides an equitable and predictable basis for accountability. It also provides a way for management to assess employee capabilities so that it can take steps to fill any gaps in competencies or skills. Such measurement provides the consistency and objectivity required for a rational determination of merit increases, promotions, and incentive compensation.

Even in the absence of an incentive compensation plan, effectively measuring individual performance provides the critical feedback that employees need for performance improvement. Frequent feedback (at least quarterly, if not monthly or weekly) that is based on objective measures keeps unwelcome surprises to a minimum and provides managers with a real opportunity to effect favorable behavioral changes among their employees. Nothing can be more disconcerting to employees who believe they have been exceeding expectations than to be told at the 11th hour that they have no chance of meeting their quarterly—or worse, annual—targets. From the standpoint of the department’s short-term goals, is there even any point to having that discussion?

A good measurement system creates a positive reinforcement and feedback loop in which small successes can grow into bigger successes. When there is no initial success, a good measurement system can pinpoint problems and provide employees with insights into how they can improve, thereby keeping fear, uncertainty, and doubt to a minimum. It also gives management the ability to reward top performers and deal accordingly with employees who are performing below expectations. In addition, management is in a far better position to determine whether the defined objectives are truly driving desired behaviors.

Clearly, performance needs to be measured on a number of levels, including things such as skills assessment, goal achievement, and quota attainment. In doing so, it’s best to stick to quantitative measures rooted in objective data whenever possible. Too often, otherwise capable managers
are taken in by someone’s sparkling personality or professional appearance. “We’re not sure what it is about Todd, but he just looks like a vice president.” Nearly everyone who has spent any time in the corporate world can point to at least one colleague who has built a career primarily on great hair, well-tailored suits, and the ability to steer clear of objective performance measures. In fact, when only quantitative measures are used, some companies have found that the employees who were thought to be the top performers were anything but.

Although there are some qualitative measures that may be worth factoring in to complete an employee’s overall performance picture—for example, is the employee a team player?—these should never be given the heaviest weight for measuring an individual’s performance. Bestowing a high performance rating on a team player who accomplishes little is likely to further reduce the individual’s productivity—why tamper with success?—and have a predictably negative impact on the rest of the team, most or all of whom will now appreciate the sheer folly of being quietly effective.

Without a quantitative approach to measuring individual performance, your organization might end up being a “mediocracy”—one in which everyone is an above-average performer, even though the things necessary to achieve the organization’s objectives are not getting accomplished. In a mediocracy, everyone can lay claim to the elite class of being a high achiever.

Many employees—well, at least the ones who are in the bottom half of performers—love working for a mediocracy, but the real above-average performers may become disgruntled because of lack of recognition of their value relative to others. Imagine being the unfortunate employee who is genuinely motivated to improve performance but lacks objective feedback as to how current performance contributes—or fails to contribute—to the strategic priorities of the organization.

With frequent, objective measurement of individual performance, the organization is able to assess whether it is on the right path and adjust its objectives—and the goals of individual employees—to drive desired behaviors.
SPECIFYING MEASURES OF PERFORMANCE

Measurement at the individual level is about applying the appropriate yardstick to the performance of all employees to determine the extent to which they have contributed to the achievement of organizational and departmental objectives and individual goals.

As is the case with measurement of organizational performance, you can’t measure everything about the individual. Measurement must focus on those activities that help employees understand how they are performing and what they need to do to improve performance. This begins with goal achievement or quota attainment, but it also includes values and skills assessments because it is often values and skills that answer the “why” of performance against goals.

Further, in the performance-driven enterprise, one size definitely does not fit all. Although there are some things, such as a company’s values, that apply to all employees, every role requires a different set of skills, and each person in each role will likely contribute to the organization’s objectives in a different way. Employees with desire and dedication are valuable to an organization, but only if they are in roles for which they possess the requisite skills.

Convinced that the usual performance appraisal process—and even the typical management by objectives (MBO) program—was falling far short of what was required to consistently and rapidly drive employee performance, Synygy created a performance measurement process early in its existence that encompassed three components of individual performance measurement: objective achievement, values and skills assessment, and client satisfaction scores.

*Objective achievement* begins every quarter by having all employees and their managers agree to a set of individual goals, each weighted to reflect its relative importance. These goals are used to focus employees on those activities that typically fall outside their everyday responsibilities. This is classic MBO stuff, except that we make sure that the objectives we set for our employees align with departmental and company objectives and that there are
clearly defined criteria for measuring achievement of the goal. It
doesn’t get any more basic than this, although I suspect many or-
ganizations content themselves with far less. Some measure per-
formance only at the organizational level and link that to
individual performance, whereas others measure individual ob-
jective achievement but do so only on an annual basis.

*Values and skills assessment* might appear to be an odd combina-
tion to some people. What do values and skills have in common?
Well, values are the glue that connects all Synygy employees to-
gether in a common culture and with a common purpose. Skills
are those competencies required by each person in a specific role.
At Synygy, we have defined an important component of individ-
ual success as the ability to embrace our core values—ownership,
professionalism, teamwork, continuous improvement, and client
focus—and to demonstrate these values and their skills in day-to-
day interactions with team members, coworkers, subordinates,
and clients. To reflect this priority, we implemented a quarterly
coworker evaluation process whereby any employee can anony-
mously evaluate any other employee (including the CEO) on how
well they exemplify our core values and demonstrate their skills.
Please note: These quarterly coworker evaluations are not just
window dressing. These ratings play a major role in determining
employee bonuses each quarter, and because of their linkage to
quarterly rewards, they are taken very seriously.

*Client satisfaction scores* are determined each quarter by having
our clients evaluate the performance of their project teams. Like
the coworker evaluations, client satisfaction scores are used to de-
termine quarterly bonuses for all employees at all levels in the
company—and clients know it! The scores are calculated by proj-
ect, by group, and overall. For people who directly work on
client projects, this component of their bonus is more heavily
weighted toward their project scores. For others—from the per-
son who does invoicing to the CEO’s administrative assistant
to the vice president of HR—the overall company score is used to determine bonuses. By linking the pay of every single Synygy employee to the satisfaction of our clients every quarter, the core value of client focus becomes a tangible and important aspect of our culture.

In addition to our quarterly processes, all employees receive a very detailed skills assessment (by their managers), and all managers receive a detailed mentor evaluation (by their staff) every six months. Our ability to handle new business has always depended on how good we were at finding, training, and retaining good people, and these evaluations result primarily in measures used to direct career development. We need to ensure that our employees are aware of the career paths available to them and that they understand what skills and experience they need to progress along their chosen career path.

The process is very much a forward-looking one; its purpose is to assess not just how well skills are being demonstrated in the current position, but what skills an employee will need to demonstrate in future positions. Unfortunately, too many organizations approach this aspect of employee assessment as either a box to check off on the “employer of choice” contest entry form or a carrot to be dangled in front of employees to take the sting out of yet another 2% salary increase or equally disappointing bonus.

The foregoing section describes Synygy’s approach to measuring individual performance. Clearly, every organization needs to measure individuals in a way that is consistent with its own cultural and operational characteristics, and you will need to come up with a set of performance measures that makes sense for your organization.

**USING ABSOLUTE VERSUS RELATIVE MEASURES**

One of the problems that organizations face in measuring individual performance is the need to eliminate, or at least compensate for, differences in how people interpret the criteria for assessing performance.
Relative performance measurement (as opposed to absolute measurement) compares people to the average or places them in rank order. This method of measurement eliminates inconsistencies in interpreting what a particular (absolute) rating scale means to a person doing the ratings.

One thing we don’t worry about is everyone having a different definition of what constitutes good performance versus excellent performance versus not-so-great performance. At first blush, it may seem unfair that one employee is rated by coworkers whose idea of excellent performance is “shows up for work on most days,” whereas another is rated by a CEO like me with standards that hardly anyone could hope to meet. What we do at Synygy is subordinate the absolute score to the relative score—that is, we ask: How did your coworker rate you compared to everyone else that he or she rated? If you received a 3 but nobody else did better, with most receiving a 2 or a 1, then we recognize that you effectively received a 5 from this coworker.

The problem became apparent at Synygy when one of the people I considered to be a top performer received quarterly evaluations (made up of combined objective achievement, coworker evaluation, and client satisfaction scores) in the bottom quarter of the company. Digging deeper into the data revealed a fundamental flaw in our objective-setting and scoring process, a flaw best illustrated through an example:

Let’s compare two managers: Easy Ed and Difficult Dan. Each has five employees, all of whom are hardworking employees. Ed sets goals and criteria that most summer interns would find only mildly challenging. Dan, on the other hand, tries to set challenging but achievable objectives that will generate an average rating of 4 on a scale of 1 to 5 (with 5 being highest performance) among his employees.

Ed gives four of his people a rating of 5 (that is, 125% goal achievement) and one person a 4 (100% achievement), for an average score of 4.8. Dan gives one of his people a 3.5 (87.5%), three others a 4 (100%), and the remaining employee a 4.5 (112.5%), for an average score of 4.

So, are Ed’s employees the top performers? After all, four of them received a top rating of 5. You and I both know how little that 5 from Ed really means. Chances are, as a group, they are no better and no worse
than Dan’s employees. Why, then, should they receive bigger raises or bonuses or anything else that goes with being a top performer? I think we can all agree that there is no point in rewarding them solely for having the foresight or the good fortune to work for Ed rather than Dan.

Now look at what happens when we break the link between “4” as the “target” and instead apply indexing based on each manager’s average score. Ed has four people with a rating of 5—using 4.8 as the average, that 5 is now an index of only 104% rather than 125% of target. Dan’s top performer, with an index of 112.5% (4.5 versus an average of 4.0), is now rated considerably higher than Ed’s top dog. As for the other end of the spectrum, Ed’s lowest performer is now at an index of 83% (4 versus 4.8) compared to Dan’s lowest at 88% (3.5 versus 4.0). From top to bottom, indexing gives us a far more equitable outcome.

As organizations grow and the disparity in ratings among people becomes greater, indexing can help equalize differences. Management can also help by reinforcing how objectives and performance criteria should be set—for example, by providing more thorough descriptions for each rating category and preferably even some illustrative examples.

**DETERMINING HOW OFTEN TO MEASURE**

What and how to evaluate are important, but when to evaluate is no less so. Most organizations still follow the time-honored annual performance appraisal process. In a ritual that is no less structured or predictable than the average New Year’s Eve party, employees and managers symbolically ring out the old and ring in the new, and no matter how rotten the old may have seemed, they can now turn to a new page in their working relationship.

Most companies have—or profess to have—quarterly or semiannual progress reviews that are intended to serve as early warnings if objectives are in trouble and to enable managers and employees to come up with a strategy for averting disaster while there is still time. What about actually changing an objective? This, I think it’s safe to say, doesn’t happen quite so often. Sure, if a change in client personnel has a dramatically
negative impact on how many widgets can be sold to that company, or if a change in a key contact adversely affects how many articles can be placed with that trade publication, then a more modest number for that requirement ought to make for a more realistic objective.

Nothing can darken an employee’s enthusiasm and overall joie de vivre quicker than an unachievable objective. But replace an objective with a substantially different one? This happens far less frequently and usually only for monumental reasons, such as an internal reorganization or a major client ending the relationship or going out of business. Even then, the objective may simply be left as is, with the understanding that it will not be factored into the annual performance evaluation in any meaningful way.

How frequently should we measure individual performance? The answer lies in what we need to do with those measurements. At a minimum, we want to be able to make a rapid course correction if one is necessary. Also, if we want to track how work is being done and not simply the results of that work, we need to measure the intermediate steps of the process; this, too, requires more frequent measurements.

Keep in mind, however, that people in some roles may not be directly responsible for the results, which means we could be measuring the wrong thing. Needless to say, frequent measurements present a trade-off: a quicker response to change versus a greater administrative burden. Only experience will determine where the appropriate threshold is for your organization.

If we accept the premise that performance evaluations are about behavior modification, as well as its corollary that the optimal time for reinforcement is around a half-second after the behavior you wish to reinforce, it’s hard to understand how “annual” ever became the default for the periodicity of such reviews. At Synygy, we evaluate performance against individual goals quarterly. We are in a rapidly changing market, and company strategy needs to be adjusted quickly from time to time. Why depend on a once-a-year process to keep employee goals aligned with those adjustments? Why let employees waste the better part of a year doing the wrong things? It just didn’t make sense to us—and still doesn’t.
We also do quarterly coworker evaluations to make sure that our employees are working together as a unit and to spot any problems early and deal with them. Nothing can derail a project faster than dissension on the team—especially the kind of dissension that stays just off the radar screen. For example, say that Ken and Fred work together every day, engage in small talk by the water cooler, even sit at the same lunch table. That's what the world sees. What the world doesn’t see is that Ken and Fred actively dislike each other, are jealous of each other, and do everything they can do behind the scenes (short of vandalizing each other’s PowerPoint slides) to make each other look bad. By the time the extent of their mutual animosity surfaces at their annual evaluations—each blaming the other for the dismal overall performance of their team—the damage is irreversible. Does this happen often? Who really knows—that is the point!—but I do know that it happens more often than we like to think it does.

Far more sensible than annual evaluations, it seemed to us, was to identify, validate (through multiple perspectives), and monitor any performance problems in time to make a difference. We also saw 360-degree quarterly evaluations as a way to drill the process into the kernel of our corporate culture to develop a consistent, company-wide approach to evaluations. Of course, it didn’t hurt that ours has always been a culture that values open, candid communication.

We do detailed skills assessments and mentor evaluations semiannually rather than quarterly because they address more long-term concerns and are not affected quite so immediately by external changes. Quite another matter is evaluating a new employee’s acquisition of required job skills and acculturation. To ensure that new employees get off to a strong start and don’t drift, we have them meet with managers monthly for three months to discuss their progress in demonstrating the company’s core values.

This compares to a company like Avnet, where the minimum requirement is that every employee receive a performance review, on time, once a year, to be completed by the manager no later than 30 days beyond the end of the fiscal year. Managers must also review, on a quarterly
basis, the development plan and critical performance factors (CPFs) for every employee. According to Steve Church, senior vice president and Chief H.R. Development Officer at Avnet, Inc., the development plan is important because it is used to pinpoint areas where help is needed, including personal coaching and speaker training, as well as programs outside the company. CPFs are important because they define exactly what the company needs each employee to accomplish, and they are usually more closely linked to the performance review, although all three assessment tools are linked to some degree.

At Synygy, the most frequent measurement of individual performance is related to sales activities. For new business developers doing cold calling, call activity is measured daily. For others working to advance the opportunities in the sales pipeline, growth in each person’s pipeline is measured weekly.

All this measurement no doubt sounds like a lot of administrative overhead, but I can tell you from firsthand experience that it is necessary and it is worth it. We’ve been doing it at my company for over a decade. As we grew and added new employees around the world, we needed a way to maintain and reinforce our existing company culture, which is results-oriented and very serious about client satisfaction. Our system of interrelated and reinforcing performance evaluations has evolved slightly since its creation, but its basic premise has not changed: Frequent feedback from a variety of sources increases the long-term success of both the employee and the company.

By frequently and objectively evaluating individual performance, especially the achievement of individual goals that are linked to organizational objectives, management can:

- Move beyond merely managing performance—The basis for creating a culture driven to perform is frequently and consistently measuring and evaluating the performance of all employees.
• Improve workforce productivity—When employees receive regular feedback regarding their performance, they are far more likely to modify their behavior accordingly. And they are likely to do it before the next time that their performance is measured and evaluated. When every employee is driven to improve performance, the positive impact on overall productivity figures to be significant.

• Motivate employees—People like knowing where they stand. They like knowing what they need to do to improve. By using a 360-degree evaluation process, by measuring goal achievement, and by otherwise frequently assessing employee performance, employees are more motivated to perform.

ENDNOTE

1. Personal discussion with Steve Church, November 23, 2004
The achievement of organizational objectives is the *raison d’être* of management. Just as the battle is said to be won or lost before the first shot is fired, the future of an organization is often decided in the strategy sessions, long before anyone actually begins the job of executing that strategy. At least that’s how some managers see it, and to some extent, they may be right.

Show me a poor strategy—one that fails to consider the industry, marketplace, global economy, workforce skills, and about a dozen other factors—and I’ll show you an organization headed for trouble, no matter how much effort its employees are willing to expend.

On the other hand, even the best strategy will not make a difference if the workforce does not commit itself to executing it effectively. Some of the best-laid strategic plans and the tactics for achieving them are eventually abandoned as unrealistic, most often because the workforce was unwilling or unable to put them into practice.

Clearly management’s responsibility as far as the organization’s strategy is concerned is twofold: to create a strategy that takes the organization down the right path based on careful consideration of a multitude of factors and to ensure that the workforce has the skills, direction, and motivation required to execute that strategy. Attending to the first half of that responsibility depends on careful research, candid discussions,
and a willingness to be creative. The second half depends on getting buy-in from every corner of the enterprise.

In the preceding chapters, I explained the importance of cascading objectives down into the workforce and measuring individual performance. These items are the prerequisites for becoming performance driven, but to truly drive performance, individual goal achievement, skills assessment, and other measures of individual performance must be linked to rewards for individual employees.

Unlike the other four components of the performance management model, which have both an organizational aspect and an individual one, the Reward component has just one. That is because rewards are for individuals. In Chapter 8, I discuss the importance of linking organizational and individual performance to rewards, including merit increases, promotions, and incentive compensation.
Not everything that management considers important will be seen that way by rank-and-file employees. For example, suppose management decides that, on the basis of numerous studies on the industry’s likely direction, the organization must radically change its way of going to market. For the top managers who have been involved in doing the studies, this change of direction is a no-brainer. For everyone else who is getting the story solely from the CEO’s e-mailed memo, internal webcast, or “motivational” poster hanging in the company cafeteria, it is merely a giant contrived nuisance—one more indication that management is insensitive to the enormous challenges faced by employees every day.

As if it’s not inherently hard enough for managers to orchestrate the direction of an organization, a WorldatWork survey found that pay-for-performance programs—supposedly a key tool for driving performance—are only moderately successful. The study associated success with a number of practices, such as adequately differentiating high and low performers, and then showed how successful companies do them and unsuccessful companies do not.¹

The major problem with this survey is that its conclusions were derived from the respondents’ own ideas about what constitutes success. To some extent, this is unavoidable in this kind of research, but it is still a big problem here because we cannot know for certain whether a
particular factor is associated with success or whether it defines success. Take, for example, the objective of creating greater differentiation in compensation between high and low performers. An organization that accomplishes this might view its pay-for-performance program as a success, but this ignores the larger issue of whether pay for performance has achieved greater productivity, better morale, or most importantly, motivated people to change behaviors and help the organization achieve its objectives.

The study found that improving financial results was the main objective of pay-for-performance programs at respondent companies, and more than three-fourths (76%) of organizations surveyed said that they “do not have formal metrics in place to gauge pay for performance effectiveness.”

If you recall from Chapter 6, I specifically alerted you to the danger of focusing on financial measures of performance and compared it to driving by looking out the rearview mirror. In Chapter 7, I pointed out the importance of using goal achievement as the key measure of individual performance. The majority of organizations surveyed fail to do either of these things. Is it any wonder that pay-for-performance plans are often considered to be failures?

Notwithstanding the obvious flaws in the survey, some of the findings are noteworthy because they bear out exactly what many find problematic about pay-for-performance programs: insufficient differentiation in performance pay, meaningless base salary increases for top performers, and not enough customization of performance awards. The recommendations of the report seem straightforward enough: Get enough reward money, increase differentiation in performance pay, and establish metrics.

Quality guru Edward Deming is not a big fan of pay for performance. His “red bead” experiment raises a number of important questions about how we ought to measure individual performance (perhaps the most important of which is Why bother?), but it is worth revisiting the experiment in greater detail from an incentive compensation perspective.
Deming set out to show that the process itself is what has the greatest impact on results. He had subjects carry out a manufacturing simulation in which their goal was to fill 50 holes in a paddle with white beads drawn at random from a container. Because 20% of the beads were red (representing product defects), subjects had little control over the number of defects in each attempt. Deming berated them, promised to reward them for improved performance, and offered the kind of guidance and direction that managers often provide to their employees.

His experimental design removed any possibility that employee behavior would affect performance results. His tirades against low-performing employees and his offers of greater compensation for improved results only underscored how futile it was for the employee to try to overcome the process-based impediments to performance or for the organization to measure any behavioral variable as a means of improving future results.

There is, no doubt, some validity to Deming’s model, in which process trumps behavior. Every day, countless well-intentioned employees find themselves stymied by factors beyond their control, be it an undocumented software bug, a hardwired mechanical flaw, a misdirected process, a management strategy doomed to failure, inadequate funding, inadequate support, too little time, an excess of bureaucracy, or any number of other obstacles that even the best of intentions and efforts may not be able to overcome.

But isn’t the real lesson of Deming’s red bead experiment not the futility of performance incentives but rather the need for management to uncover and repair any process problems before evaluating and paying for performance? And doesn’t management have both an obligation and the resources to fix its processes? This is exactly what our performance management model is designed to do: Align the organization to remove systemic problems.

No matter where you come down on the process-performance debate, the objective for organizations—the realistic objective—is not to achieve certain numbers no matter what but to ensure that they are
achieving the best possible performance given the processes they use. Deming was theoretically correct in his assertion that a flawed process can overcome a good employee, but businesses are hardly powerless against flawed processes. Any company that would tolerate a process analogous to the one used in the Deming experiment would be out of business in short order, and deservedly so.

If trying to differentiate high and low performers really were so futile, we would have a hard time justifying the use of pay for performance, but I don’t believe that this is the case. Rather, I believe companies that are able to motivate and reward people to help the organization achieve its strategic objectives will certainly be more successful than those that do not.

LINKING PERFORMANCE MEASURES TO REWARDS

The purpose of this chapter is not to help you design a pay-for-performance plan; there are several excellent books and numerous expert consultants available to help you design an incentive compensation plan that makes sense for your organization and what you are trying to accomplish. Rather, this chapter is about how the Reward component of the performance management model is an integral—and quite critical—aspect of creating a performance-driven organization.

Without a link between individual measures of performance and appropriate rewards for achieving success, there is no effective way to steer the organization. Although the measures themselves provide direction (and are a good first step), linking the measures to rewards is the power steering that enables the organization to rapidly change the behaviors of the entire workforce and keep them on the straightest path to achieving the organization’s strategic objectives.

Some companies assign and measure goal achievement and assess values and skills. Some have even started using these data to manage the business more effectively. That’s a good start, but if you’re looking for significant results, you’ll also need to link performance to compensation.
Most companies claim they do just that. After all, they use their employees’ annual performance appraisals—or maybe even assessments of their annual goal achievement—to determine their annual pay raises and perhaps even their year-end bonuses. “Of course we base compensation on performance,” the head of HR will tell you, perhaps teeming with indignation at the assumption, implicit in your question, that anyone would ever do it any other way, going on to point out that “that’s what pay for performance is all about—don’t you know that?”

In fact, intent is not the issue here. Most companies do try to link performance to pay. Unfortunately, as the WorldatWork survey points out, they usually fail. In my experience, the failure occurs because, among other reasons, not enough people at all levels of the organization are on variable pay plans, the plans are not sufficiently individualized, not enough pay is at risk, people don’t understand their incentive compensation plans, and the measures and associated rewards are late or not communicated frequently enough.

FIGURING OUT WHOM TO REWARD

Of all the incentive compensation related questions, who should be rewarded is the easiest to answer. That’s because everyone—every single employee in the organization—should be on a variable pay plan that is linked to their individual performance. And if you really want to drive performance, both inside and outside your organization, you might also include suppliers, vendors, and partners in a variable pay plan.

At Synygy, for example, our public relations agency put 25% of its monthly retainer at risk by agreeing to a variable pay plan that enables it to achieve upside earnings for meeting the goals set for it each quarter. This is taken so seriously by the agency and its people that I once received a visit from the president of the agency when their goal achievement slipped two quarters in a row.

In many organizations, teamwork is an important aspect of the culture, and creating incentive compensation plans linked purely to individual
measures of performance could easily encourage an unhealthy competition and an “every man for himself” attitude. But no matter how cooperative your work environment may be, some competition is always desirable.

In a free market economy, the best ideas come from people who are motivated to be more creative or productive than their colleagues. Removing the monetary incentive for individual excellence and focusing primarily on the need to “play well with others” may make for convivial lunch hours, but it won’t do much for long-term productivity and competitiveness. Employees who are rewarded for their contributions will be motivated to continue contributing; those who have not contributed as much will see firsthand the wisdom of trying harder.

The key for management is to create a system that rewards people for achieving challenging but achievable goals. Set the bar too high, and employees won’t even make the effort. For example, if you’ve never played the piano, how much of an incentive do you think it would take to get you to learn the Moonlight Sonata? How much less of an incentive would it take to get you to learn to play a few scales? And after you have learned those scales, how much less incentive would it now take to get you to attempt a few easy pieces? After a few such achievements, the Moonlight Sonata may no longer seem quite so out of reach.

Put a bonus—even a modest bonus—within striking distance and you’ll see positive behavioral change. As for any negative impact on teamwork, recognize and account for that in your plan design. This can be accomplished by basing some of the measures used to determine rewards on team performance, whether the team is a work group, a department, a business unit, or the entire organization itself. What is important is that there are sufficient measures linked to the individual’s performance so that differentiation in pay can occur.

Is there a more effective means than pay for performance to motivate employees to learn more about the corporate strategy and exactly how their responsibilities can contribute to its successful execution? I doubt it, yet some would argue that this is not about the money. Some would say
that rewarding people is really about instilling in employees a sense of ownership—having a common stake in how the organization performs—and that there is no better way to achieve this than by linking pay and performance.

I agree that a sense of ownership and shared destiny is a good thing. The problem is that nothing says “we’re serious about your having a stake in the organization” more than a merit raise, bonus check, or some other tangible reward for outstanding performance. Unless the organization is willing to follow through on delivering a sense of ownership through a comprehensive program of career development and promotion from within, employees may see their newfound ownership as nothing more than an excuse for management to shortchange them on salaries and bonuses.

At Synygy, the results of performance evaluations are tied directly to employees’ quarterly bonuses. Top performers are immediately rewarded with a larger quarterly bonus, which could be up to 125% of their target bonus. Poor performers still get bonuses, but they may be significantly less than their target bonus. Because there is money involved and there is a relatively wide distribution between high and low performers, the performance evaluation process gets noticed by both employees and managers, to the point that employees actively pressure managers to set objectives and evaluate performance in a timely manner.

Three scores go into determining the bonus payments to Synygy employees. The first is an evaluation of the employee’s performance in achieving their individual goals. The second score is obtained from the evaluations of coworkers on the subject of skills and values and the extent to which the values are embodied in the day-to-day work behavior of the employee being evaluated. Finally, there is the client satisfaction score. These three scores are weighted to account for differences in roles and relative impact on client satisfaction. For example, a client-facing position usually has more weight placed on client satisfaction, whereas other roles typically have more weight placed on coworker evaluations and objective achievement.
It is the ability of an organization to create individualized plans for each role — and even each person — at all levels within the organization and to adequately differentiate pay that is the key to driving performance in all parts of the organization.

DETERMINING THE KINDS OF REWARDS

Rewards can take many forms. The most common are merit increases in base pay, promotions, and incentive compensation, which may include sales commissions, performance-based bonuses, contests (with cash or noncash awards), and other types of variable pay that are tied to individual or team performance. Although incentive compensation and other forms of variable pay are often a reflection of what someone has done, I think of merit increases and promotions as more of a reflection of what a person can do.

On some level, any reward — even a thank you that costs absolutely nothing — can have an impact on performance. But of course, the bigger the reward, the more you will be able to change the behaviors of your people. In fact, it turns out that one of the keys to pay for performance is making sure that there are sufficient funds to invest in incentive compensation.

There must be a high enough percentage of target compensation at risk for all employees if you hope to have a meaningful effect on individual performance. The bare minimum amount of variable pay that can have any effect on behavior whatsoever is 5% of pay allocated to incentive compensation. Depending on the role, 10% to 50% of target compensation would be more appropriate and have a greater impact.

Not having enough pay at risk and not having the associated funding leads to a host of other problems, such as not being able to reward all truly high performers and not being able to differentiate adequately between the compensation of high and low performers, thereby demotivating some of your top performers.
Another way to demotivate top performers and much of your workforce in general is to build qualitative, highly subjective measures into a pay-for-performance system. Instead, to motivate people, their rewards must be based on a specific set of objective criteria for measuring performance that they understand. Unless you are using a purely quantitative measure, there will be too much room for managerial maneuvering in the reward system.

For example, say that two employees deliver comparable numbers against productivity benchmarks, but one of them brings some additional *je ne sais quoi* to the table that is seen as particularly valuable by their manager, though other managers might not regard it quite so highly. Can we eliminate this exercise of discretion? Should we want to eliminate it?

My opinion is that we ought to accept that this happens all the time and invest our efforts in trying to build a reward framework that is rooted in objective assessment of performance but within which such qualitative assessments can take place. Relative measures rather than absolute measures (discussed in Chapter 7) constitute one such objectively oriented framework that works because it eliminates a degree of subjectivity in a manager’s definition of what “good” or “excellent” performance means.

Having a nonsubjective reward framework is also where communication of enterprise objectives to department heads and the cascading of objectives down into the organization becomes so critical. Ideally, such communication acts to limit qualitative measures to behaviors that have an impact on the achievement of strategic objectives.

There’s much at stake when an organization creates a pay-for-performance program. Employees have an understandably keen interest in matters involving their compensation. Whether one’s natural tendency is to fear change or to welcome it, the intensity of that reaction is likely to be exaggerated when the amount of one’s compensation hangs in the balance. For management, to promise and not deliver is a lot worse than not to have promised at all.
EMBRACING THE CONCEPT

To create the kind of performance-driven organization that many companies only dream of, you must tie individual performance to meaningful individual rewards. It is that simple. Yet most companies continue to operate on the periphery of pay for performance, for one reason or another never quite fully embracing the concept.

To see whether your organization has truly embraced pay for performance, ask yourself these seemingly straightforward questions:

- Do all of your employees have some portion of their pay linked directly to their personal performance?
- Do all of your employees feel that they are rewarded based directly on factors within their personal control?
- Do all of your employees receive quarterly goals and at least monthly assessments of their goal achievement (regardless of whether they are paid bonuses quarterly)?
- Do all of your employees understand what they need to do to be the best possible performers within their particular roles?
- Do all of your employees know how their incentive compensation plan works and whether they are on track to maximize their earnings?

If you truthfully answered yes to even one of these questions, I would be pleasantly surprised. Good for you! But to fully and completely embrace pay for performance, you need to answer yes to all of these questions. In my experience, it would be a rare organization indeed that could meet every condition.

Even if an organization fully embraces pay for performance, there are numerous pitfalls to successfully incorporating the concept into your culture and executing such plans. These pitfalls include the failure of people to understand their incentive compensation plans, the failure to provide frequently and timely feedback on individual performance, and the failure to accurately calculate payments.
We will discuss the need to help people understand their reward system more in the chapters covering the Report component of the performance management model, where we will also go over the importance of feedback in rapidly changing people’s behaviors and the importance of accuracy in cutting “shadow accounting” (people keeping their own set of books) to improve productivity and people’s trust in their compensation plans.

A workable reward system is critical to effective performance management. Among the benefits to be derived from linking pay to performance are:

- **Rapidly adjust behaviors**—Incentive compensation and other forms of rewards are the power steering that allows you to rapidly adjust the day-to-day activities and behaviors of the entire workforce. With an appropriate pay-for-performance system, managers are able to make rapid adjustments to employee responsibilities in support of changing organizational objectives.

- **Drive accountability deeper**—By linking the pay of all employees to their performance and holding people at all levels of the organization accountable for their performance, you are able drive performance throughout the organization.

- **Retain top performers**—Exceptional people like working with other exceptional people. By giving people a clear understanding of expectations, feedback, and motivation through rewards and recognition, managers are able to better assess the truly best people.

**ENDNOTES**

2. Ibid., p. 7
3. Ibid., p. 8
I am going to start the Report section by talking about one of my pet peeves: the false promotion of “analytics” or “analysis tools” as genuine analysis, an increasingly common hoax perpetrated by software companies, the systems integrators with whom they conspire, and the executives who purchase their software.

Such “analysis” tools are nothing more than data-query tools; data queries are just reports that contain rows and columns of data (even if in a fancy multidimensional cube); such reports are not analyses by any reasonable definition. That’s because the output of these tools is just more data—data that still require human interpretation if they are going to be analyzed. When we provide such reporting and data-query tools to people, what we’re providing them is the capacity for them to do analysis. We are not—repeat, not—providing them with analysis.

I view reporting and analysis as existing on a continuum, with a number of attributes on each side that, taken together, increase the analytical content of an output and move it toward the analysis end of the spectrum. So, for example, if there is only one data source that is used, it’s most likely a report; as more data sources are used and as those data are combined into various ratios and measures of performance, we move toward analysis. If the content consists of rows and columns of data, it’s a report; as words and graphs are added, we move toward
analysis. If there are no comparisons to benchmarks, goals, average performance, or minimum or maximum values of performance provided, it’s a report; as we add comparisons, we move toward analysis. If the focus is on explaining how we did, it’s a report; as we move toward explaining why we performed as we did and answering important business questions, we move toward analysis. If there are no models or rules invoked in some automated fashion that result in some sort of interpretation of the data, it’s a report; as models and rules are applied, we move toward analysis.

The Report component is the window into the Align, Measure, and Reward components of performance management. Distinct from the generally forward-looking Analyze component, the Report component allows you to see whether the organization and its people have made progress toward implementing the organizational objectives and the cascaded individual goal, and it provides a feedback mechanism that allows you to adjust your strategy, tactics, objectives, and goals over time.

As with the earlier Align and Measure sections, there are two parts to reporting performance: organizational and individual. Organizational reporting is the delivery of information about how the enterprise has performed. Individual reporting describes the performance of individuals for the benefit of either those individuals or their managers. In some cases, both kinds of report information may be drawn from the same data. For example, a manager might study a report of territory sales to assess how individual salespeople performed; a CEO might have occasion to see those same individual statistics as part of the territory sales summary used to support the organization’s overall sales figures.

In Chapter 9, I discuss the reporting of organizational performance. In Chapter 10, I discuss the reporting of individual performance.
Chapter 9

REPORT ORGANIZATIONAL PERFORMANCE

Reporting at the enterprise level has always been about getting the right kind of information to executives and senior managers to help them make decisions. Over the years, management decision systems, business intelligence, and business performance management have all come into fashion as ways to use data for decision support.

With the recent corporate focus on complying with government financial reporting regulations, however, the primary drivers of organizational reporting have changed. At least for the time being, organizations are primarily concerned with statutory compliance rather than pushing the boundaries of decision support and performance management.

Does this recent shift in emphasis toward compliance and accountability undermine the potential for reporting as a mechanism for creating a performance-driven organization? Or does it enhance it?

In the United States, the Sarbanes-Oxley Act of 2002 ("SOX") was passed in response to high-visibility abuses by companies such as Enron and WorldCom. The Act is designed to protect shareholders and customers from the consequences of relying on corporate misrepresentations regarding financial performance. (Many other countries have adopted similar laws.)
Under Section 404 of SOX, annual reports must assess “the effectiveness of the internal control structure and procedures of the issuer for financial reporting.” After a formal report has been prepared, an external auditor must attest to and report on the assessment made by management. These are not trivial requirements; they require extensive cataloguing, testing, and evaluation of internal controls, in addition to whatever problem solving is required to ensure compliance.

Under Section 302 of SOX, officers who sign a statutory financial report must certify, among other things, that they have reviewed it, that it does not contain any materially untrue or misleading statements or omissions, and that they are responsible for internal controls and have evaluated them within the previous 90 days. In addition, Section 906 makes it a crime for corporate officers not to certify financial reports and imposes substantial penalties for knowing or willful violations.

Although executives have always looked for ways to do a better job of managing performance, with legislative requirements such as these—and potential jail time for not complying—who has time to design and create reports that will lead to improvements in the performance of the organization?

Of course, it would be great if laws such as SOX could be a catalyst for improved performance management—and they may, eventually—but for now, one could easily argue that such government regulations actually institutionalize the notion that organizational performance equals financial performance. Such reporting is, after all, focused almost exclusively on financial matters.

For organizations to bridge the gap between compliance and performance, they need to have a vision for integrating financial and nonfinancial information, with a specific focus on using such information to understand how all the interrelated parts of the organization are working together to help achieve the strategic objectives of the organization.

The reason that I hold out hope of such a possibility is that one of the consequences of SOX has been that corporate officers need (at least in
theory) to have a thorough understanding of the workings of the organization. Section 404 requires organizations to certify that the processes used to create financial reports are auditable. Section 906 requires “that information contained in the periodic report fairly presents, in all material aspects, the financial condition and result of operations of the issuer.” In other words, compliance requires insight into organizational operations and processes.

OVERCOMING REPORTING CHALLENGES

Organizations have been pretty good at basic financial reporting for a long time, and for most publicly held organizations, success is often equated with hitting certain financial targets. If you work for a publicly traded company, you are all too familiar with the recurring drama. Every quarter, Wall Street predicts what your earnings per share will be. Miss that number even by a penny per share, and the Street—along with millions of your hitherto loyal investors—are likely to turn on you like a pet cobra.

Other factors play a part, of course. For example, if you are in the middle of a major turnaround and things have been going well for several quarters, any hiccup can be blown way out of proportion. How many publicly traded companies have strung together a couple of years’ worth of great quarters on their way back from hard times, only to miss a number by just a couple of cents and see its stock plummet from $40 per share to under $20 per share in a couple of days. Miss by anything more than that (such as a nickel, heaven forbid), and the wheels can fall off in literally a matter of minutes. Is it any wonder that companies have become obsessed with hitting these financial targets?

From a performance management standpoint—real performance management, that is—this single-minded focus on financial measurement and reporting can be counterproductive and misleading. Placing performance in a purely financial context ignores the myriad other
factors that go into an organization’s performance. It would be like trying to improve the Green Bay Packers’ win–loss record simply by comparing the current season’s record and game scores with those of previous seasons without ever bothering to evaluate the team’s offense, defense, and special teams play.

If regulatory compliance has motivated organizations to look beyond just financial reporting, that’s a good thing. For example, a company might identify revenue recognition issues and take steps to fix the problem in the name of compliance; in doing so, the organization may also be sowing the seeds of a more effective enterprise by better assessing labor productivity and other nonfinancial measures that were previously of questionable value because of inaccurate timing of revenue recognition. In that sense, SOX and similar laws can be a powerful force for better business management.

The effects on becoming more performance driven will become more evident as companies adjust to the process requirements of compliance. In the initial stages of compliance, organizations are understandably focused on doing whatever needed to be done to get accurate financial reports produced. Once the basics of compliance are completed, organizations will then able to focus on reporting that helps improve performance.

But how do organizations begin to think about moving beyond financial reporting to a more performance-driven approach to reporting? To state the obvious, financial results depend on the operational performance of all parts of the organization and the degree to which the organization is successful at executing its strategy. This involves all parts of the organization, and the best approach to reporting organizational performance is one that effectively integrates financial and nonfinancial data and puts into perspective whether the organization is achieving its strategic objectives.

As with measurement, the key is to create alignment between organizational objectives, measures, and reports. Such alignment should be aimed at frequently providing information to managers to help them assess performance and make rapid adjustments to keep people on the
shortest path to achieving organizational objectives and individual goals. There are, however, numerous challenges to doing this effectively.

One challenge is a lack of data consistency, which is about ensuring that the same measure of performance that is used on multiple reports has the identical number on each. For example, say there are two reports, one created by the sales operations group and one created by finance. The sales operations people, after doing some data validation and adjustments so that the sales commissions are correct, roll up the data for all the territories and report total commissionable revenue to the vice president of sales. The finance department, without the benefit of such adjustments, reports total revenue as the number that came out of the accounting system. This inconsistency creates a lack of trust in the data and results in time wasted determining why the two revenue numbers are different.

Despite the need for consistency, it continues to amaze me how many different systems exist within organizations of all sizes, the number of different departments and groups doing their own thing with the data, and the amount of money spent attempting to create superwarehouses for data and complex schemes for doing data integration.

Another challenge to performance-driven reporting is overreporting, which is providing anything to anybody who wants it and giving users of information an even greater opportunity to engage in inconsistent and incorrect interpretation of data.

On top of this—as if overreporting and inconsistencies were not enough of a problem—the proliferation of “analytical” (data-query) tools only causes such problems to be exacerbated. With such tools, the message communicated to employees is that anyone can be an analyst. The data, however, invariably end up being interpreted according to each individual’s own departmental view or through some other lens that creates inconsistency across departments.

To create consistency across different parts of the organization, the best approach involves a centralized process for data integration,
validation, and cleansing. From my experience, because of the number of different data sources that must be integrated together to pay people and the nature of the processes used to accurately calculate incentive compensation, the output from the incentive compensation management process is a database that does not exist anywhere else in the organization. It contains all the data from the Align, Measure, and Reward components of performance management, and for this reason, it should be the database of record for all reporting—and the source of information that feeds other systems—throughout the organization.

Additionally, the most effective approach involves a report creation process rooted in a common set of templates that can be used to generate mass customized information and a web-based process for report distribution.

**KNOWING WHAT TO REPORT**

The balancing act faced by management is to provide a level of consistency, accuracy, and centralized control while simultaneously giving all employees access to the information they need to assess progress toward the achievement of organizational objectives that they influence or to help them understand the impact of their performance on the organization’s objectives.

Clearly, well-informed employees tend to be more productive employees, but I prefer not to define “well-informed” simply as having lots of information. There’s a qualitative element at work here, too—a sense that the information shared with an employee has been organized (by management or by the employee with the assistance of tools provided by management) into a supportable viewpoint that readily lends itself to positive behavioral change.

Organizational reporting, if it is to be effective at improving performance, needs to be easily understandable and meaningful. Think about a high school student who has just pulled from the Internet 60 pages of
information about various Civil War battles, to be used for a term paper. He has no idea how one battle relates to another or any overall understanding of how the war progressed. All he has is 60 pages of essentially raw, fragmented data. Compare that to a second student who has only 10 pages of information, but that information includes how each battle relates to the other battles and to the Civil War in general. I think we know who is likely to write the better paper. But please note: I’m not saying that raw data is always a dangerous thing. Excel can be a powerful tool, but it can also be a dangerous instrument if used by someone who doesn’t understand how the report was created. At a minimum, there needs to be some level of compilation of raw information into measures that have meaning to the user.

A current fad in reporting is the distillation and assembly of data into customizable “dashboards” that show key measures of performance in real time. Like the dashboard in your car, the value of an executive dashboard lies primarily in its ability to alert you to future problems. It is an early warning system that can help your organization avoid impending disaster—provided that someone does something about those warnings. Stated otherwise, the test of any performance dashboard is not what it tells you, but what actions are taken as a result of what it tells you. That needle in your car approaching “hot” won’t, by itself, stop your car from overheating; someone needs to open the hood and add water to the radiator or at least turn off the engine.

Dashboards must be customized to include only those items that the user can do something about. Who wants to sit helpless while every gauge in front of you screams Danger! Also, if it’s not related to the objectives of your part of the organization, it has no business being included on your dashboard.

The reason I think that dashboards are a fad is that they don’t really tell you much. In many cases, they are not unlike having your car’s dashboard tell you your average windshield wiper fluid utilization. Most of the data on dashboards are more like “nice to know” bits of trivia than pieces of
actionable information. Either dashboards have to become much more sophisticated so that they have the ability to explain why the performance indicator is as it is (as I will discuss in the Analyze section of the book), or they will go the way of hula hoops, pet rocks, and mood rings.

Furthermore, the concept of real-time reporting is just as absurd as _annual_ objective setting on the other end of the time continuum. That’s because, whether the data are on dashboards or in reports, most data in most organizations do not change by the minute, and “real time” is one of those now completely overused buzzwords. For example, a real-time income statement doesn’t make any sense if you pay people on a monthly basis. In practice, real time for nearly every business means weekly or maybe daily at best.

The inconsistency between real-time reporting and infrequent objective setting points out an obvious flaw in organizational reporting. If reporting is too frequent, people will waste a lot of time looking at data that doesn’t change. If it’s not frequent enough, there is no opportunity to modify people’s behaviors to achieve objectives.

My rule of thumb is that reporting should occur no fewer than three and no more than six times the frequency of the objective measurement period. For example, if objectives are measured quarterly, reporting should be done monthly or bimonthly; if objectives are measured monthly, reporting should be done weekly; and if objectives are measured weekly, reporting should be done daily.

When it comes to time periods, the trend is moving away from traditional annual and period-to-date measurements when reporting internally, and that’s a good thing. Annual measures are not frequent enough to give you insight into anything, and period-to-date measures tell you only how you are progressing toward some budget or other goal but do not give you a valid measure for comparing current results to other periods or creating trends over time.

To move beyond simple dashboards and yet provide sufficient report customization, interactive templates can be developed that allow users to view reports by selecting parameters of interest, thus allowing mass customization and localization. Such parameters might include time
periods, start and end dates, products and services, geographies, and other items applicable to each interactive report template.

For example, management might want to know how calls on new customers correlate with sales revenue on a quarterly basis. In other words, are we making more money by churning the base or by looking beyond the base? This is a basic question, yet one that can be affected by any number of ancillary factors, including regional differences, specific competitive situations, timing, and external causes. Senior executives and regional sales managers need to know what is driving sales figures in each region, as well as how each stacks up to other regions and to the organization as a whole. Parameters of interest may vary significantly from one region to another. What you don’t want is for strategic decisions about a specific region to be made on the basis of figures that present a generic picture of performance, or worse, on the basis of figures that may be largely irrelevant to the performance of that region.

As a result of government regulations, people at every level of the organization are understanding, agreeing with, and signing off on the financial results. Not surprisingly, we are seeing more performance monitors in the management of business processes, compliance dashboards, and other tools designed to let management and employees know where the organization stands with respect to periodic results.

But effective performance management is about much more than simply complying with legal requirements. Most would agree that managers and other key employees who understand the organization’s objectives and how the company is performing against them are in a better position to contribute positively to the achievement of those objectives.

One meaningful way to frame organizational reporting is to use the relationships among organizational objectives, related individual goals, and associated measures of performance as a foundation for reporting. Such a framework (shown in Figure 7) is a strategy map that allows you to drill down into the various levels of cascaded objectives. This is a common view of objective achievement with methodologies such as balanced scorecard.
By providing the right people with the right information on organizational performance, management can:

- **Comply with statutory reporting requirements**—Government regulations have compelled corporations to make organizational reporting a top priority. While this is currently a distraction that is adding little performance management value, once such reporting processes are automated, it could be the impetus for improved performance management.

- **Improve visibility into objective achievement**—Performance reporting reinforces organizational objectives by using key performance indicators and other measures that reflect achievement (or
failure) of those objectives. With frequent, timely reporting, executives throughout the organization are provided greater visibility, and at the same time, held to a higher level of accountability.

- **Improve communication across the organization**—Good reporting improves communication across all departments and at all levels of management when everyone in the organization has access to consistent and accurate performance data. Real-time reports allow managers and their employees to assess objective achievement and respond in a timely manner to emerging problems, trends, and competitive realities.
Let’s start with the simple premise that individual reporting, if done in the context of creating a performance-driven organization, is about changing workforce behaviors. To change behaviors and keep people on the shortest path to achieving their individual goals requires frequent feedback.

In fact, I would be hard-pressed to name any area of human activity where frequent, timely feedback isn’t a good thing. In an enterprise in which people have individual goals and are rewarded for goal achievement—which is one of the most essential aspects of creating a performance-driven organization—the need for feedback is even more acute, and the frequent dissemination of performance information to individuals can be the difference between success and failure.

As part of the Align and Measure components, I recommend that individual goals usually be set quarterly and progress toward goal achievement typically be measured monthly. The workforce performance reporting process needs to be executed in the same frequency that measurement is done. That’s because people must be given a chance to adjust their behaviors prior to the final measurement of goal achievement.

Giving people goals every quarter is a pointless exercise unless they have sufficient information and direction to use in keeping pace with those changes through modifications in their day-to-day activities. Because of this, feedback should be provided several times prior to when goals are to be completed.
Just as important as frequency is timeliness. Timely feedback is critical to effective management of the workforce. Timeliness means having an individual reporting system that gets data about their individual performance into the hands of people as close as possible to the event that produced the data. The closer the behavior and the feedback are in time, the sooner employees can modify their behaviors and the more empowered they will feel to have an impact on goal achievement. In addition, managers will be able to better manage, including having the ability to assess top and bottom performers and to quickly take corrective action to improve overall workforce performance.

In addition to timeliness and frequency, issues of accuracy and data consistency—which are very much interrelated—are critical to the effective reporting of individual performance.

Although there are plenty of opportunities to introduce inaccuracies and inconsistencies in multiple reports generated for individuals, I most often see data inconsistency between sales reports and incentive compensation reports. That’s because finance, sales, and incentive compensation reports are often created by different people—even different departments—using different processes. It is not uncommon for revenue to be reported differently on each of the reports.

With sales reports, the data tend to come directly from some enterprise source and are typically organized around territories. On the other hand, incentive compensation reports utilize data that have gone through various processes to ensure accuracy, such as determining who gets credit for which transactions, specifying splits, applying eligibility rules, and running specialized data-validation procedures—all aimed at ensuring that people are paid accurately. Incentive compensation data are organized around salespeople who happen to be assigned to territories. The result: Sales in a territory are not necessarily equal to sales credited to the salesperson, and the numbers on the respective reports do not always match.

If your organization has problems with data consistency among reports, there are ways to fix the problem, including using the incentive compensation management system as the database of record and generating all sales, activity, and performance reports from this database. This
will have two effects. First, there will be greater trust in the data, which will lead to better decision making and higher morale. Second, you will uncover problems in the accuracy of data that were previously too difficult to ascertain because they were buried in data inconsistencies.

Some other characteristics of good individual reporting are relevance, understandability, and an action orientation.

In thinking about the relevance of information to individuals, think about what employees need to know to influence their success. In general, being more successful means working more effectively and making a more significant contribution toward the attainment of individual goals and departmental objectives. Good questions to ask are: Would the person find the numbers you are providing them truly useful or just nice to know? Do these data answer important questions that employees might have about their performance and what they need to do to perform better (and earn more)?

Understandability is the key to creating visible linkages between the strategy of the organization, incentive compensation and other rewards, and workforce behaviors. The failure of people to understand their incentive compensation plans and the strategy that is embodied in them will result in behaviors that are not aligned with the strategy. Therefore, one of the most important aspects of report design is ensuring that it becomes a feedback mechanism that very tightly aligns a person’s incentive compensation plan with the performance that is expected from that person.

I view the incentive compensation report as the most important information that any individual gets—and so do employees because such reports explain how much money they are making. But to be truly understandable and to drive the right behaviors, the report must explain why they earned what they did and further explain what they should do to earn more. Think about it: If you want to change people’s behaviors, you need to provide a lot of guidance and feedback, and people must be able to understand what is in it for them.

Related to understandability is an action orientation. This is what I mean by explaining what people need to do. If you want the behaviors of your people to be consistent with organizational, departmental, and
individual objectives and goals, you need to provide them with information that tells them what they need to do differently. To do this efficiently requires analysis—either in an automated way (which we will consider in the Analyze section) or through human interpretation, such as when a manager uses individual performance reports to provide coaching and guidance.

To be most actionable, the data on individual reports must have context. Think about this in terms of one obvious question when explaining a person’s performance: Performance relative to what? Without some sort of benchmark, target, or other context for performance, a person’s actual performance data are pretty meaningless.

The performance of one’s peers is one of those benchmarks that provides context for a person’s performance. This is the essence of relative versus absolute performance. For example, an absolute rating system involves assessing the performance of each person using absolute measures, such as a rating from 1 to 5 on a variety of skills and values or calculating each person’s quota attainment or objective achievement. On the other hand, a relative rating system takes the skills rating, quota attainment, or other performance measure and divides it by the average of other employees in similar roles. Statistics such as rank and percentile can then be applied, creating a forced distribution from the lowest to the highest performer.

Some managers have a problem with the concept of relative performance. Those who do not approve of such relative statistics give reasons such as negative effects on teamwork. The concept of relative performance, however, is rooted in an important objective of any organization—continuous improvement. When it comes to people, continuous improvement means shedding (or improving) the bottom performers and upping the average quality of the workforce. The argument that “all my people are good” is nonsense. Good is not good enough and the average can always be improved.

At Synygy, for example, all employees get individual quarterly performance reports that show their relative performance (shown in Figure 8). The goal is not merely to get a 4 (excellent) on the report. The goal is to do better than your peers. Therefore, the absolute score received is not
Figure 8: Sample Individual Performance Report

<table>
<thead>
<tr>
<th>Component</th>
<th>Earnings Factor</th>
<th>Weight</th>
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<tr>
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<tr>
<td>Objectives</td>
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<td>x</td>
<td>40%</td>
<td>= 41.2%</td>
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<tr>
<td>Client Satisfaction</td>
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<td>x</td>
<td>20%</td>
<td>= 25.0%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
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</table>

Coworker Evaluations (40%)

Performance Indicators

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<th>Component</th>
<th>Mentor</th>
<th>Coworker</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
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<td>103.38%</td>
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<tr>
<td>Professionalism</td>
<td>100.31%</td>
<td>100.06%</td>
<td>100.68%</td>
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<td>Teamwork</td>
<td>104.14%</td>
<td>103.38%</td>
<td>103.63%</td>
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<tr>
<td>Continuous Improvement</td>
<td>105.50%</td>
<td>103.37%</td>
<td>104.18%</td>
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<tr>
<td>Client Focus</td>
<td>98.77%</td>
<td>100.50%</td>
<td>99.87%</td>
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<tr>
<td>Job Skills</td>
<td>93.33%</td>
<td>103.50%</td>
<td>98.65%</td>
</tr>
<tr>
<td>Overall</td>
<td>102.65%</td>
<td>103.15%</td>
<td>102.37%</td>
</tr>
</tbody>
</table>

Company Min Performance Index = 95.0%
Company Max Performance Index = 105.0%

Indices

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<tr>
<th>Component</th>
<th>Mentor Avg.</th>
<th>Self</th>
<th>Low</th>
<th>High</th>
<th>Average</th>
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<tr>
<td>Client Focus</td>
<td>98.8 100.9</td>
<td>0.00</td>
<td>0.00</td>
<td>107.5</td>
<td>91.0</td>
</tr>
<tr>
<td>Job Skills</td>
<td>95.3 105.6</td>
<td>0.00</td>
<td>0.00</td>
<td>112.2</td>
<td>97.2</td>
</tr>
<tr>
<td>Overall</td>
<td>102.8 102.1</td>
<td>0.00</td>
<td>0.00</td>
<td>109.8</td>
<td>93.8</td>
</tr>
</tbody>
</table>

Objective (40%)

Objective Description | Weight | Score | Weighted Score |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Release new corporate site...</td>
<td>20%</td>
<td>4.2</td>
<td>0.84</td>
</tr>
<tr>
<td>Refine targeted account analysis...</td>
<td>20%</td>
<td>4.0</td>
<td>0.80</td>
</tr>
<tr>
<td>Decrease solution cost...</td>
<td>35%</td>
<td>4.0</td>
<td>1.40</td>
</tr>
<tr>
<td>Meet hiring goals...</td>
<td>10%</td>
<td>4.5</td>
<td>0.45</td>
</tr>
<tr>
<td>Implement sales commissions...</td>
<td>10%</td>
<td>4.3</td>
<td>0.43</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>4.12</td>
</tr>
</tbody>
</table>

Client Satisfaction (20%)

Component | Weight | Score | Weighted Score |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>100%</td>
<td>4.50</td>
<td>4.50</td>
</tr>
<tr>
<td>Marketing</td>
<td>0%</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Project</td>
<td>0%</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>4.50</td>
</tr>
</tbody>
</table>

Notes:
reported. Only the index is reported, which is the person’s score relative to the average of other people reviewed by their manager.

Like Synygy, one large technology company moved to relative performance reporting; unlike Synygy, however, the company reported both the absolute score and the relative score. Under that system, a person could get a 4 (excellent) but get an index score of 50%, indicating merely average performance. From a reporting standpoint, could there be a more effective way of shutting down perfectly competent, hard-working employees than by telling them they are good but not good enough? It is better—and more legally defensible—if employees are told that they are just average performers, period.

HELPING PEOPLE UNDERSTAND THEIR PERFORMANCE

For most organizations—especially those that have yet to properly align the workforce with enterprise objectives—the primary piece of feedback received by employees is the annual performance evaluation, and even this is of little forward-looking value. So, if the goal of reporting is to change people’s behaviors—before they get their paychecks—what kind of reports should organizations be providing to their people?

The core reports should involve incentive compensation, goal or quota achievement, values and skills assessments, and information related to understanding their performance.

I have seen that individual performance reports related to incentive compensation are viewed by employees as the most important information they receive. Such reports are also the ones that attract the greatest interest from employees. An analysis by General Electric of the usage of their employee web portal supports this notion: The majority of people logged in to the portal for the primary purpose of reviewing their incentive compensation reports.
From the organization’s perspective, the importance of incentive compensation reports is simple: For rewards to be effective, employees must know how their plan works and must get frequent feedback about how they are doing.

Paying people for performance is an essential feature in the performance-driven organization, but if employees cannot see for themselves which specific behaviors are associated with favorable and unfavorable compensation-based consequences, even the most carefully thought-out incentive compensation program may fail to deliver the expected performance benefits.

It’s not enough for management to derive an equitable formula for determining the link between performance and compensation. Employees must see, understand, and accept the integrity of the logic used to create that link, even if they happen to disagree with that logic. If employees feel that they should be earning more money, they should understand what they need to do to make more. Individual reporting must, at a minimum, create and reinforce this link for the employee.

To establish this nexus through effective reporting benefits both the organization and its employees and lends credibility to the implicit message of pay for performance, which is that employees are in control of their fate. Nothing can preserve or restore that faith in the company’s reward system more effectively than a sense that management is working hard to give employees the information they need to adapt to changing priorities and thereby preserve their opportunity to be compensated commensurately with their contribution to achieving strategic objectives and individual goals.

Good incentive compensation reports show how performance is translated into some currency—whether it is money, gifts, or other rewards. They should clearly explain how the incentive compensation plan works and how results are calculated. The reports should answer three basic questions: (1) What did I make? (2) How was it calculated? (3) Why did I make what I did?
Employees need to know—and you need your employees to know—exactly how their performance affects their incentive compensation. Ideally, we want employees to know how they can improve their performance and thereby receive greater compensation, but that kind of specific information falls into the realm of analysis, and most reports don’t go much past providing general inferences or suggestions in that area. As for the physical layout that best addresses these questions, the report should be divided into three distinct sections with the payment amount at the top, earnings in the middle, and performance at the bottom.

Is that all there is to it? Well, almost. You can include this information in the format just suggested and still have a hard-to-use report that doesn’t help employees see the connection between their compensation and their performance. There are also three general elements that must be addressed successfully if an incentive compensation report is to be effective.

The first and most important is **understandability**. The report should show the calculations for payments and earnings, the performance measures and payment method used, and detailed transactions or other supporting data. There should be an easy-to-follow flow from each main section (payment, calculations, and performance) to the next.

In effect, with all reporting—not just incentive compensation reporting—you are telling a story. If you want your readers to get the most out of your story, they need to be able to follow the story line. So, don’t just show the calculations—show step-by-step the build up of how the data were used to create those calculations. Creating visual consistency and visual links across sections will also help them follow the story. You might even want to include some “what-if” analyses to reinforce the relationship between compensation and performance (for example, had you sold 10 more units, your commission rate would have increased to 3%. Had you sold 15 more units, etc.)

The second element is **aesthetics**. Let me begin by noting that this does not mean indiscriminately inserting graphs. Use a graph to support the story and only when the information lends itself to a graph (such as when explaining trends or showing comparisons of relative performance). For
the most part, people who get incentive compensation reports are better served by tables of numbers and text, neatly and clearly arranged. The performance measures may work in a graph, but payment and earnings calculations are almost always shown in tabular form.

The third element is details. Be sure that your spelling, use of abbreviations, and all other matters pertaining to style are correct and consistent throughout the report. Carefully align all graphs, text, and gutsers. Use standard margins and footers. Attention to detail greatly enhances the report’s credibility and, as a result, its overall utility.

These design issues and general elements are illustrated in the sample incentive compensation reports shown in Figures 9 and 10. In addition, Figure 11 provides some helpful design principles for incentive compensation reports.

Because incentive compensation reporting has the highest value and interest to employees, the purpose of additional reports is to explain how performance was determined. This is where goal and quota attainment, values and skills assessments, and any other information used to determine individual performance come into play.

Just as important as what you report is what you do not report.

Organizations now sometimes provide managers and staff with data-query tools (those things I complained about at the beginning of the Report section) to use to dig deeper into the numbers. This is an area where management is best advised to exercise caution. Data-query tools afford employees the ability to manipulate raw data; a likely outcome, however, is an analytical free-for-all with no consistent approach to analysis and interpretation.

There are other ways to both provide needed data and do so in a more structured, organized way that provides consistency in the numbers and in the approach to interpreting the numbers. This will be covered in the Analyze section of the book.
Figure 9: Sample High Tech Industry Incentive Compensation Report

**Report Individual Performance**

### Technology Inc.

#### 2006 Commission Statement

**October 2006**

<table>
<thead>
<tr>
<th>Monthly Commission Earnings Calculations</th>
<th>Performance Bonus Graphs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Group</strong></td>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Hardware</td>
<td>$53,495</td>
</tr>
<tr>
<td>Accessories</td>
<td>$14,292</td>
</tr>
<tr>
<td>Software</td>
<td>($86,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>($58,498)</td>
</tr>
</tbody>
</table>

#### Monthly Performance Bonus Calculations

<table>
<thead>
<tr>
<th>Bonus Rate</th>
<th>Bonus</th>
<th>Earned</th>
<th>Debt Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>$1,152.94</td>
<td>$1,152.94</td>
<td>$0</td>
</tr>
</tbody>
</table>

Your Bonus Rate is determined by where you fall on the

#### Monthly Draw Calculations

<table>
<thead>
<tr>
<th>YTD Draw</th>
<th>YTD Recovery</th>
<th>Debt Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,250</td>
<td>$12,650</td>
<td>$0</td>
</tr>
</tbody>
</table>

#### Sales Transactions Detail

<table>
<thead>
<tr>
<th>Invoice</th>
<th>Quantity</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>04124</td>
<td>1</td>
<td>['Hardware']</td>
</tr>
<tr>
<td>04125</td>
<td>1</td>
<td>['Hardware']</td>
</tr>
<tr>
<td>04126</td>
<td>1</td>
<td>['Hardware']</td>
</tr>
<tr>
<td>04127</td>
<td>1</td>
<td>['Hardware']</td>
</tr>
</tbody>
</table>

**Commission Earnings**

<table>
<thead>
<tr>
<th>Product Description</th>
<th>Rate</th>
<th>Earned</th>
<th>Debt Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware</td>
<td>1%</td>
<td>$1,152.94</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Split Distribution**

<table>
<thead>
<tr>
<th>Hardware</th>
<th>Accessories</th>
<th>Software</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Adjustment Detail

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Customer</th>
<th>Net Sales</th>
<th>Returns</th>
<th>Gross Profit</th>
<th>Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCU Hardware</td>
<td>04125</td>
<td>$10,950</td>
<td>$120.00</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>SCU Terrific</td>
<td>04127</td>
<td>$10,950</td>
<td>$120.00</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>

### Conclusion

With just a few months go, you are very close to earning the $12,224 Bonus Tier which will put you in the running for the President's Club, and the good work.

---

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Figure 10: Sample Insurance Industry Incentive Compensation Report

<table>
<thead>
<tr>
<th>Current Earnings Summary</th>
<th>Net Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Balance</td>
<td>Current ACME Compensation Earned</td>
</tr>
<tr>
<td>$8,000.00</td>
<td>$1,778.00</td>
</tr>
</tbody>
</table>

Compensation Summary:
- Compensation Types: First Year Target Compensation, Renewed Compensation, Asset Based Compensation
- Current Compensation: $8,000.00, $2,815.00, $660.00

Compensation Chart:
- First Year Target Compensation
- Renewed Compensation
- Asset Based Compensation

Current Adjustments:
- $1,000 for being under schedule.

First Year Compensation:
- Insured's Name: Johnson, Mark
- Coverage Start Date: 12/14/2005
- Target PIES: 2/26/2005
- Premium: $6,000.00
- Commission: $4,000.00

Renewed Compensation:
- Insured's Name: Smith, John
- Coverage Start Date: 12/14/2005
- Premium: $5,000.00
- Commission: $3,000.00

Asset Based Compensation:
- Insured's Name: Jackson, George
- Coverage Start Date: 3/1/2005
- Premium: $4,000.00
- Commission: $2,000.00

Totals:
- $18,000.00
- $10,000.00
- $8,000.00
- $44,000.00

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Your incentive compensation reports will be more effective if you follow these design principles:

1. All plan components should be addressed in the report, and the reader should be able to explain the plan, including the time period, products or services, performance measures, payment methods, and other components (such as team and individual calculations, corporate multipliers, etc.).

2. To peel away the story of how the person is paid, major sections of the report should appear in the following order from top to bottom: payment calculations, earnings calculations (by component), and performance measures.

3. If more than one product or service determines the payment, earnings and performance for each product should be shown in same order as they appear in payment calculation.

4. The payment should be shown in a distinct box on the line directly below the report banner, typically in the upper-right-hand corner of report.

5. The payment box should identify the current payment period, indicate whether the payment shown is projected or actual, and show when the person will get paid.

6. For every number used in the payment and earnings calculations, there should be an area of the report that shows how it was calculated or explains how it was derived.

9. The payment and earnings calculations should be explicit, with all numbers used in calculation shown and math made clear through the order of columns and use of operator signs.

10. Time periods used in calculations should be explicit and dimensionally consistent (e.g., don’t compare quarter-to-date volume to previous three-month volume).

11. Sort orders should be explained.

12. All terms or acronyms should be consistent with those in the incentive compensation plan document.
ADDRESSING SPECIAL REPORTING REQUIREMENTS

There are two groups of people within organizations who tend to have some special needs related to individual performance reporting: people in sales and managers across the entire enterprise.

Salespeople, more than many other people in an organization, tend to need a lot of information to do their jobs effectively. They are also the most likely people in an organization to be on incentive compensation plans and to have the highest amount of pay at risk.

Good sales reporting enables salespeople to see how the transactional results relate to the sales activities that produced them. Such reports combine activity data (such as calls and meetings) with other performance measures so that salespeople can understand not only their sales reports but also what they are doing to produce them.

The concept is to reinforce positive correlations and to change ones that are producing less than desirable results. This is the flip side of the aggregate reporting for sales activity and results discussed in connection with reporting organizational performance. In one case, management uses correlations between activity and results to adjust either strategy or tactics. You can’t fix the problem unless you know what’s causing it. In the other case, individual reps are charged with modifying behaviors that are seen as inefficient and nonproductive. You can’t fix the problem even if you know the cause unless you change the behaviors that are causing it.

Individual reporting tells managers how their people did so that they can help people do better or so that they can terminate the poor performers.

Managers also need to use performance reports to comply with legal regulations related to human resource practices. For example, if a company plans to terminate an employee, performance reports are essential to meeting the statutory requirements imposed on organizations regarding wrongful termination. The use of relative performance is especially important here. There is nothing more supportive of an
employee’s wrongful termination claim than getting an excellent employee review. On the other hand, if the absolute scores are eliminated and only the relative performance is shown, an arbiter can easily see where the person really fell in the organizational pecking order.

For managers to derive optimal value from individual performance reporting, they need to see the relative performance of their people, including relative earnings, relative work activity, relative sales results, and relative values and skills. To do this requires indexing of employee performance by dividing actual performance by average performance.

I caution sales managers that, whenever possible, they should not use quota attainments as the benchmark for determining sales performance. That’s because the quota setting and adjustment process at most companies is relatively arbitrary, which leads to quota attainments that cannot easily be compared across the full range of salespeople. Further, many quotas are set too high or too low, which results in too many people beating or not beating their quotas. This problem, however, can be somewhat addressed by ranking quota attainments across the sales organization, which tells you who your top reps are—even if nobody had 100% attainment.

To illustrate this concept, think about which employee is likely a better salesperson—someone who achieved 100% of quota on a sales force that averaged 110% of quota, or someone who achieved 95% of quota on a sales force in which no one made quota? In the first case, someone obviously set the quotas way too low. Don’t compound the problem by using those inflated numbers as the basis for undeserved rewards or future planning that presumes stellar sales performance.

Consider another example in which some notion of relative performance is important. Say you have a territory sales manager who has just received activity data on all the reps in their territory on a sales report. The manager can use those data to judge whether there is a problem and even to identify the nature of the problem. Individual reps, each looking only at their own activity data, may not be able to identify the specific problem or set of problems or even detect any problem at all. Someone
studying only the financials could certainly recognize a drop in sales but most likely not the source of that falloff. Only the sales manager, looking at the relative activity data for every team member, would have the information required to put it all together.

By reporting on individual performance, managers and employees can:

- **Drive overall performance**—Reports that comprehensively show how each employee is performing help managers to coach individuals and optimize performance of each of their employees. As the performance of each individual is improved, the overall performance of the organization is enhanced.

- **Help people do better**—With frequent and timely reporting of individual performance, managers are able to see at a glance where problems are and compare performance of each employee to benchmarks that help them understand how they are performing and what they need to do to improve.

- **Help people earn more**—Individual performance reports (especially incentive compensation reports) can be used to make a strong case to employees regarding the justification for comparative compensation levels and motivate the adoption of desired behaviors so that they change their behaviors and earn more.
We are coming down the homestretch of performance management. We have gone through the need to align the workforce with its strategic objectives; collect performance data and assess performance at the organizational and individual levels; reward individuals consistent with their performance; and let everyone in on the extent to which progress has been made. Now it’s time to look at Analyze, the last of the five components needed to create a performance-driven organization.

If you recall, I began the Report section with a tirade about the “conspiracy” to make average employees believe they are analysts. I also described the continuum between reporting and analysis, noting how most analysis tools are really nothing more than data-query or reporting tools and how most analysis being done at enterprises really falls much more toward the reporting end of the spectrum.

Because I view reporting and analysis as a continuum, the Analyze component is perhaps best described by comparing it with the Report component. Reports answer the what of performance management: What were our numbers for revenue, profit, and everything else that we measure? What were those numbers last quarter or last year or for the last five years? What were the numbers for our competitors and for the industry in general? What was the total number of client calls we made this quarter? What was the number of new clients we acquired? What was the number of widgets we produced per hour? What was the number of people hired or fired?

ANALYZE
In other words, reports supply us with measures of performance. These data can be presented in tabular form, as a pie chart or bar graph, or in some other graphic format—but regardless of how the data are formatted, they are still data, and a report is still a report. Employees may be given the ability to query the data, but whatever they are left with is still in the form of data, from which they can form their own conclusions.

Analyses answer the *why* and the *how* of performance management: Why were our revenue numbers so much lower (or higher) this year? Why are we doing so much worse (or better) than our competitors in certain areas? Why are we closing so few (or so many) new client deals? How do new client demographics affect the closing percentage? How can we change the future outcomes?

Unlike reports, which require human interpretation to get to the why and how, analyses supply us with answers to business questions that help us drive the performance of the organization.

With reports, people see data. With analysis, people see answers to the questions they may have about those data—preferably through an *automated* process, without their having to manually interpret the data and attempt to figure out what it means. Good analysis combines words, graphics, and numbers to provide the why and how of organizational and individual performance.

In Chapter 11, I discuss the analysis of organizational performance, which gives managers and executives a clearer understanding of the relationships among the factors affecting financial and operational results. In Chapter 12, I discuss the analysis of individual performance, which enables all employees to understand the factors that contribute to their own success and to determine the most likely approaches to improving their future performance.
In the study of organizational performance, what remains to be discussed is the use of all the prior components of performance management—reflecting all that has been done and all that has been learned from doing it—to make any needed adjustments in strategy and tactics to improve future performance. The purpose of the Analyze component is to initiate change—change in strategy, in tactics, in personnel, in budgets, and in many other aspects of managing the enterprise.

The Analyze component is the final step in a closed-loop process that uses information produced and gathered during the Align, Measure, Reward, and Report components of performance management to determine how execution of the strategy is working and to figure out what needs to change. Because performance management is a closed-loop process, the output from the Analyze component becomes the input to the Align component of the next performance cycle.

One aspect of organizational performance analysis is determining the extent to which performance outcomes can be attributed to strategic objectives or to execution. In the case in which an organization has failed
to achieve a particular objective, we need to determine whether that failure was the result of a bad objective, poor execution, or both.

An objective may have been unrealistic, never having had a chance of being achieved because of adverse market conditions, inadequate skill sets, poor planning, or some other insurmountable obstacle. Or perhaps it was a bad objective because someone should have known that it was never going to be supported with sufficient funding. In the latter case, it is not clear whether this is equivalent to a bad objective from the start or whether it becomes a bad objective only when adequate funding is officially withheld. What is clear is that this objective was never going to be achieved, no matter how hard everyone worked on it.

In either case, we need to be able to distinguish a satisfactory attempt at execution from an unsatisfactory outcome. Analysis allows you to make that distinction. Without it, management is likely to assume a behavioral cause for the failure and then try to get people to work harder or change their behavior, which may already be above and beyond anything management has a right to expect. In a sense, analysis makes management accountable by not letting it get away with making assumptions about failure and then berating employees for not trying hard enough.

If the objective is the problem, we need to go back to the Align component and eliminate or modify it. If, on the other hand, the objective is a good one but employee performance was not sufficient to achieve it, we again need to go back to the alignment process, but here it’s not the objective that needs changing. We instead need to look at why the previous alignment didn’t work: Were organizational objectives not cascaded accurately down into individual goals? Was there not sufficient budget? Were individuals not aligned to opportunities? Were individual quotas not set appropriately?

Without analysis, all this is left to guesswork and assumption. With it, we have a solid, logical foundation for remedying the problem. Sometimes, of course, both objectives and execution may be off base. Again, it’s important to know this rather than to make the usual assumption (I suspect) that the employees failed to execute as well as they should have.
CREATING ACTIONABLE INFORMATION

Without analysis, raw data are left open to uninformed interpretation. Think about the difference between televised network news and what you see on C-SPAN. On the latter, you get to watch nothing but raw footage of congressional hearings and other official activities, unmediated by the kind of commentator you see on CNN or Fox News. Even if we accept the proposition that C-SPAN has no bias in what it covers, most viewers would nonetheless have a difficult time making meaningful and useful observations about what is broadcast because they lack a suitable framework or context within which to interpret what they are seeing.

More importantly, would we want C-SPAN viewers taking to the streets on the sole basis of something they saw during a broadcast? Stated otherwise, are these data genuinely actionable alone, or should there be at least some distillation and combining of the data with other sources to extract greater meaning? At the other extreme, we have news programs that selectively present edited footage accompanied by commentary, all designed to steer the viewer in a particular direction. Fortunately, there is a middle ground in which multiple sources are used to present as complete a picture as possible. Viewers are left to draw their own conclusions, but here they can do so on the basis of thorough, unbiased, understandable, and contextual information.

In assessing organizational performance without the benefit of analysis, even if you manage to obtain a valid reading of which departments or organizations are outperforming others, there’s no way to tell whether this is good or bad performance. If sales are up 5%, is that good? You can’t answer that without knowing how the rest of the industry is doing or how other divisions within your own company are doing. Sure, you can get that number in a simple report, but even if 5% turns out to be a respectable increase, you can’t know without analysis whether your 5% is a “good” 5% (for example, weighted toward an emerging market) or a “bad” 5% (for example, an old product’s last gasp, representing business that’s going away quickly and will need to be replaced).
Whether analysis is done manually by a group of experts or through an automated mass customized process, analysis must provide actionable, meaningful, timely information to the people who are in a position to use it. Unlike some of the reporting and query capabilities that many people believe qualify as analysis, automated analysis requires the use of the following mechanisms and processes:

- Comparisons to benchmarks, goals, average performance, or minimum or maximum values of performance
- Combinations of financial and nonfinancial measures from multiple data sources in ways that enable you to derive meaningful insight into issues such as workforce productivity, return on investment in marketing initiatives, and the impact of client satisfaction on profitability
- Trends that can help people visualize and assess patterns of performance over time
- Rules-based alerts to notify executives, managers, and employees by e-mail, wireless devices, or personal dashboards of interesting trends, exceptions to performance, and other important business conditions
- Models to predict future performance
- Process maps that help determine bottlenecks, inefficiencies, and other deficiencies in business processes
- Computer-generated text that explains what the data mean in words
- Communications that integrate words, charts, and numbers that answer key business questions and tell a meaningful story about the performance of the organization (see Figure 12)

In thinking about these analytical processes and methodologies, think about one of the missing linkages that typify poor performance management: the relationship between the past and the future. Most performance management approaches look backward only. They measure what was done and what was not done. If objectives are met, there’s the usual patting of backs and handing out of achievement awards. If objectives are not
met, we can expect the usual rounding up of suspects and doling out of task force assignments and United Way captaincies. Whichever form of singling out predominates, rest assured that it will have little direct impact on the organization’s ability to meet its goals in the future.
A good example of this type of retro thinking is customer satisfaction surveys. How do companies use them? For the most part, they use them to impress others—customers, prospects, competitors, and the world in general. To this end, they often tamper with the figures. A survey format may distinguish between moderately satisfied and very satisfied, between moderately dissatisfied and very dissatisfied, but in reporting outcomes, the company may group these in any way it wishes. So, if 20% were very dissatisfied with something and only 5% were moderately dissatisfied, this may be grouped in the single category of “dissatisfied.” Conversely, if 20% were very satisfied with something, you can bet that that will be broken out from the moderately satisfied group.

The problem with this approach is that it doesn’t help to define the problems that may exist, nor, more importantly, does it get the organization on the path toward solving it. Another problem is one of morale: If customers go to the trouble of providing nuanced responses to the survey, they have a right to expect that the outcomes will reflect that nuanced input.

Analysis can serve as the bridge between past outcomes and future performance. In this customer satisfaction example, we should be able to utilize an analysis of factors driving satisfaction (or dissatisfaction) to predict future satisfaction and make adjustments to objectives so that satisfaction goes up. Such forecasting need not be complicated; it can be as simple as looking at the correlations between variables.

With organizational analysis, there are three likely outcomes that will result—strategic realignment, budget resetting, and process redesign—all of which are worthy of a focused effort that will continuously improve the organization.

REALIGNING STRATEGIC OBJECTIVES

A performance-driven organization uses models, trends, and other analytical methodologies to assess performance, develop action plans, adjust strategic objectives, and realign work to optimize strategy execution. The emphasis is on the future, which is exactly where it needs
to be. And notice, this is not simply a case of looking at actual data and
deciding what worked and what did not. Rather, it uses various analyt-
ical methodologies to convert past data into a set of descriptors for fu-
ture conditions across a range of factors, such as the workplace, the
marketplace, and the economy.

When it comes to trends, I have found many flaws in interpretation
as a result of a failure to properly allocate revenue, costs, and activity to
the right time periods or a failure to compare like time periods. For this
reason, I am a huge fan of looking at trends over rolling 13-week peri-
ods. A 52-week graph of rolling 13-week periods provides a good snap-
shot of annual performance. Such trend data consists of data points
containing three full months of data. As a result, daily, weekly, and
monthly data can all easily be combined into valid, comparable data
points over time.

One important analytical technique is modeling. Models provide a
great way to test assumptions about planning and process. It’s certainly
less expensive than waiting a year (or even a few months) to see whether
the posited causal relationships supporting your strategic objectives are
valid. Does calling more often on certain clients result in additional
sales? Does cutting production during certain months save more in costs
than we lose in revenue? Using models enables businesses to test those
relationships beforehand and make adjustments. A model replaces
guesswork (Why did we lose money?) with well-reasoned hypotheses
(We most likely lost money because of insufficient coverage in this re-

gion) to form the basis for change.

With models, you can use what-if scenarios to test the expected im-
 pact of objectives and changes to objectives. For example, your com-
pany’s objective might be to grow revenues by 10%, and you’re fairly
certain that you’ll need to add new customers to get there. But how
many new customers will you need? Under what circumstances, if any,
will the addition of new customers enable you to achieve that target? By
factoring in assumptions across a range of other variables, modeling can
provide a reasonable estimate of what it will take. If, given other
assumptions, adding the required number of new customers appears
infeasible, you can run different assumptions through the model to determine whether 10% growth is achievable with the addition of fewer new customers. Again, it’s good to know this up front rather than a year later.

Modeling is also a good way to see whether activities are serving their intended purposes and to help in evaluating the relative impact of various activities. There is no shortage of stories about companies that didn’t get it right because they were at cross-purposes regarding objectives on the one hand and measures, rewards, or reports on the other. Analysis of data is what can help clear up any disconnects, false assumptions, or missing linkages.

Future-oriented analytical techniques are necessary no matter what your organization’s performance outcomes may be. If performance fails to achieve strategic objectives, you need to know where the problem is so that it can be fixed. If performance is good and objectives are met, you need to know exactly why things worked out so well and what you need to be doing more of. Also, you need some basis for deciding on the next steps to ensure that your organization keeps pace with changes in the market, the industry, the world economy, and any other variables that could have an impact on performance.

With such methodologies, you can input a set of assumptions that will provide some insight into the likely effects of adhering to the same organizational strategy and then change those assumptions for insight into the specific impacts likely to result from changed circumstances. Armed with those insights, the critical question of whether to change strategic direction becomes a logical, carefully reasoned decision and less an act of faith.

**RESETTING BUDGETS**

As strategic realignment occurs or as the tactics for working on strategic objectives change, there will likely be a need to reset budgets. And budget analysis often gives us insight into what strategies of tactics need to change. This is an iterative process.
Timely and reliable budget analysis is critical to effective performance management. There are two key types of analyses that can be used: an analysis of actual versus budgeted expenditures during a period and a trend analysis that compares actual expenditures to prior period expenditures.

Some of the key measures used in budget analysis include actual expenses, expenses as a percentage of budget, or expenses as a percentage of revenue.

An analysis of actual versus budgeted expenditures should answer the question of why expenses are above or below budget and not merely show the budget variance. It is through this type of analysis that you can gain some insight into the root cause of objective achievement (or failure).

When looking at an analysis of expense and budget trends over time, I prefer to see the most recent 52 week period superimposed over the prior 52 week period. This is much more useful than looking at the traditional data-oriented measures of current period versus prior period performance.

As with other analyses of expenses and budget variance, the trend analyses should explain why movements over time occur. This requires looking at trend data for a set of measures along the lines of the “measure tree” shown in Chapter 6.

Another important aspect of trend analysis is taking into account the seasonality in certain types of businesses where it may be common for much of the annual budget to be used up early in the year but then to level off later on. Or, low expenses during the early part of the year may be necessary to counterbalance higher expenses later in the year. As a result, seasonality is one of the factors that goes into explaining why trends are occurring.

REDESIGNING PROCESSES

Analysis is also valuable because it provides insight into the effectiveness of business processes. Between objectives and results lies process. In evaluating whether the primary reason for a failed objective was a bad
objective or bad execution, it’s possible that bad business processes are the real culprit. Perhaps an objective is feasible and employees are working hard to achieve it, and there is enough funding and correctly aligned skills to support it; yet, the objective can still fail because of insurmountable obstacles posed by the process used for it.

This gets back to Edward Deming’s red bead experiment, which was designed to demonstrate that even the most competent, well-intentioned employees cannot overcome the inherent flaws in the processes they use. Analysis can help pinpoint opportunities for greater efficiencies in process, whether they are processes for sales or manufacturing or anything else. Graphic displays of process can highlight weak points and suggest opportunities for optimizing resources and activities to make processes more efficient and effective.

Consider, for example, an organization that wants to recruit at least six employees with advanced degrees in biochemistry. At the end of six months, there are still no new hires. We can study the activity reports and see that recruiters are interviewing candidates, and we might even be able to see that our recruiting activities compare favorably with those of the industry in general. We can look at the resources being spent on recruiting activities, the compensation and relocation packages being offered, and the skills and experience of our recruiters and still not be able to explain the reasons for our failing objective.

Traditionally, management would blame the result on poor execution of a perfectly reasonable objective, and the employees would blame it on an unreasonable objective that was doomed from the start. Through analysis of the process, however, we might find that company policies regarding the timing of recruiting activities, the administrative red tape involved with this kind of hiring, or the legal department’s wording of the employment contract tended to discourage even the most interested prospects. Whatever analyses we can perform would, of course, depend on which data we collect, but the point is that even with feasible objectives and satisfactory employee performance, we cannot improve outcomes without insight into the processes that produce them.
By analyzing organizational performance, management can:

- **Explain why and how the organization is performing**—The numbers may indicate a problem, but through good analysis, management can test assumptions and understand how certain policies and aspects of performance contribute or would be likely to contribute to results.

- **Be proactive about taking corrective action**—Armed with specific evidence regarding causality, management can move quickly and confidently in responding to failed objectives rather than relying on guesswork or simply assuming that poor execution is at the core of the problem.

- **Improve business processes**—By using analysis to determine the effectiveness of processes, organizations can solve the root cause of problems and improve the capability of the organization to execute strategy.

- **Rapidly learn and adapt**—Through the use of analytical tools, management can learn from the past and adjust the future objectives by uncovering areas for improvement and providing fixes rather than simply announcing poor outcomes and the need to work harder.
ANALYZE INDIVIDUAL PERFORMANCE

Analysis of individual performance is meant to explain the why and how of individual outcomes in a format that is both understandable and actionable for each employee. The goal of providing analysis at the individual level is to help people understand what they personally need to do to improve their performance. For example, analysis of individual performance can explain:

- Why employee performance resulted in the incentive compensation payments they received and how they can earn more
- Why employee goals or quota achievement occurred and how they can get on track to achieve better performance
- Why employee values and skills were rated as they were and how they can better exemplify values and improve skills

As we saw with organizational performance, the analysis of individual performance may result in modification of individual goals or the activities necessary to achieve those goals—completing the closed-loop process of goal setting to goal achievement to goal adjustment. For example, sales reps can compare their performance against quota or against some territory or national norm and then begin to dig into possible reasons for any deviation from expectations. Is there a direct
correlation between the number of calls made or the type of account
called on and performance against quota? Even certain “safe” assump-
tions (such as more calls = more revenue) may prove to be untrue in
some cases (such as fewer high-quality calls = more revenue), but reps
are unlikely to discover this from the reports of data alone.

Analysis of individual performance can also be used by managers.
Good analysis helps managers determine why people who performed at
various levels achieved as much or as little as they did. Managers want
to reward top performers, but they may also want the best people to see
which of their activities and behaviors had the greatest positive impact
on their performance so that they (managers) can provide better coach-
ing to the bottom performers. Similarly, we may need to terminate poor
performers, and analysis of relative performance helps to figure out who
has the potential to improve and who needs to be let go.

In the case of both individuals and managers, analysis is often about
benchmarking performance relative to others (“you are in the top 25%
of my best performers”) or to historical performance (“you are doing
better than you were”).

As with reporting, the most valuable types of individual analyses are
related to incentive compensation, goal or quota achievement, and val-
ues and skills assessment. The difference, of course, is that reports ex-
plain what the performance was and analyses give some insight into the
why and how.

For example, a useful analysis related to incentive compensation
would explain to a salesperson why there are going to be negative ad-
justments to their earnings. This might occur, for instance, when a large
customer returns unsold goods or when someone is paid for future sales
that are reversed when a contract is prematurely terminated. This type
of analysis is valuable because those receiving it can have a more posi-
tive appreciation of how such a negative event affects them. This is not
merely a report on sales data but a means of doing something with
those data that reps could not do on their own in other than the most
speculative way. This analysis provides some consistency to what would
otherwise be an inconsistent, largely unpredictable process.
Another explanation-oriented example is the individual territory analysis, which each salesperson can use to pinpoint trends in product sales, including shifts in market share, the volume of individual products, and geographic variations, such as where a particular product ranks across a number of different regions and nationally. Again, analysis can help put trend data in some kind of meaningful, actionable context. If, for example, sales are up 5% in your territory, you need additional data (such as sales in other territories or growth figures for the industry) to know whether 5% is praiseworthy, catastrophic, or something in between. And you can combine trend data with individual customer data (such as who is buying more and who is not) to find ways of bringing sales back up to speed.

Figure 13 shows an example of a territory sales analysis. The charts are combined with words to help interpret what the chart means. This is important because people prefer to interpret information in different ways; some of us are numbers people, others are more oriented toward pictures, and yet others relate better to words. With words, management can also supply hints regarding prescribed remedial actions in response to performance shortfalls.

Detailed pictures of overall performance and the extrapolation of data to predict future conditions are, by themselves, of little practical value. Analysis must have a clear purpose centered on answers to questions that people have about their performance.

CREATING ANALYSES FOR INDIVIDUALS

Years ago, reports (mainly financial in nature) were run at night in batch mode. In the absence of e-mail, those reports then had to be printed and distributed to employees as hard copy. Because decision making was far more centralized than it is now, most reports were distributed to a limited circle of users. The reports were not always available for immediate decision support, but at least we could be sure that those using the reports had sufficient information and knowledge to use them appropriately.
We have a different problem today. Reports are run in real time, and the availability of e-mail and intranets means that they can be distributed in real time as well. With increasing decentralization of the decision-making function, what we are left with is lots of people in a position to

Analyse Individual Performance

Figure 13: Sample Pharmaceutical Industry Territory Sales Analysis
use lots of data that they may or may not fully understand. The ability to respond promptly to new information is a powerful strategic weapon in the right hands; in the wrong hands, it only increases the risk and damage that can result from acting too quickly without the requisite insight.

We want employees to be able to turn on a dime in reacting to trends, market pressures, and other factors, both internal and external, but we need to ensure that all this power to access data is pointed in the right direction. We can give employees the data-query capabilities needed to easily merge financial data with sales activity data, but are they digging deep enough to extract data for all the significant variables, and if not, how can we ensure that they do?

When individuals get reports containing pages of data that have not been analyzed, they must decide what to do with the numbers. For example, take the number of sales calls made. Individuals can see goals and where they achieved or fell short, but this is of limited value. What we need to do is push that data through a model to find out, for each person, whether the right calls are being made, whether we have the right balance of calls, and whether this activity is consistent with the organization’s strategic objectives. We need to tell salespeople what it all means and what they should do differently to achieve their personal goals and to help the organization achieve its objectives. This is the kind of information employees need if we expect them to change their behaviors as a result of performance data. We can hold all employees to a high level of knowledge, or we can ensure that they understand what they need to know by spelling it out for them.

The reality is that most people are not accountants or analysts (even if we give them “analytical tools”)—or would even want to be. Most people don’t have MBAs. Yet we often want—and even expect—our employees to think like businesspeople capable of making logical, analytical business decisions. This could be accomplished by hiring only MBAs, providing extensive training (which would need to keep up with the pace of change), or automating the process of analyzing and interpreting data. The last alternative is both the easiest and the most effective.
There is, however, one potential problem with this approach. To have any utility, the analysis for each person needs to be consistent for all employees across the entire organization. But who is making those judgment calls? Do all immediate supervisors have the same understanding of corporate objectives? Do they all use the same metric to evaluate the degree of accomplishment? Goals may have been cascaded down, but what about all the accompanying intangibles that may reflect strategic considerations not shared, or at least not fully recognized or appreciated, below a certain level? Analysis needs to be consistent to reflect organizational objectives.

USING MASS CUSTOMIZED ANALYSES

Unlike in the old days, when one-size-fits-all reports were able to provide a cross-section of employees with the data they needed to react to a much less dynamic marketplace, workers today need access to more customized information. First, with the increasing complexity and narrower compartmentalization of job descriptions, even two employees working in the same department in roughly the same area could have vastly different information needs. Multiply that kind of differentiation by the number of groups contained in a large corporation and the unfeasibility of centrally preparing and distributing customized reports becomes obvious. That’s why organizations have generally taken a decentralized approach to analytics.

The problem is that all these data queries may not always be generating true analysis, but only more data. Analysis requires the application of intelligence specific to the areas being reported on, as well as the application and interpretation of the appropriate statistical measures. The average employee may be in over their head in many or most cases. That’s why some degree of centralized control over the analytical processes and methodologies is important.

In fact, Synygy was founded—and the early solutions focused—on the simple principle that salespeople should be selling and not trying to figure out what their data mean. This principle applies to all roles in an
organization: People should be working on achieving their goals and not trying to make sense of their data.

Put yourself in the shoes of a salesperson who wishes to remedy a falloff in territory revenue. A simple report might reveal that you sold less to a particular category of customer than you did in the same quarter a year ago. You then look at activity data for the two periods and find that you called on that category of customers fewer times this year. Case closed? Hardly. What about other factors? For example, what kind of product mix are you selling, and where are you in the product cycle? Are sales down in general for your primary products, or are only certain types of customer moving away from them?

You test a number of hypotheses by looking at the data in different ways, then decide that the most likely explanation is a migration away from your primary product to a smaller (read: lower-priced) upgrade technology among organizations of a particular size. So you run several what-if scenarios—using data on price points, operational costs, sales cycles, and closing rates—to determine how many calls you would need to make to generate enough revenue from the upgrade product to offset the lower revenue per sale. You learn that the newer product has a shorter average sales cycle, and that, in spite of the lower sales price, a shift in portfolio emphasis for this type of customer should generate additional revenue with no additional call activity. The result of your analysis is a detailed action plan that directly addresses the problem revealed in the report.

Can every employee be counted on to attack such problems in an organized fashion? I doubt it. Is every analysis guaranteed to solve the underlying problem? Certainly not. The possible effect of other variables, especially in combination with each other, is not always so easy to detect. What appears to be an open-and-shut case of cause and effect may be nothing more than contemporaneous but independent events, with the real culprits remaining above suspicion. If we do not know enough to hypothesize, exactly which data will we analyze?

By automating the analysis of data, employees will better understand the causal linkages between activity-related variables and financial outcomes
and, ultimately, how their own behavior affects achievement of the organization’s objectives. Automated analysis plays an important role in guiding employees down the appropriate avenues of inquiry and reinforcing valid conclusions regarding causal relationships.

Through automated analysis, management can provide customized, meaningful information to thousands of employees. The prospect of employees acquiring a more thorough understanding of the operation of performance variables and then independently modifying their behavior in a way that is likely to improve outcomes should tip the scales in favor of providing such analyses—and away from pushing more data into the hands of people whose time is best spent doing tasks for which they are more suited.

Experience and common sense are valuable assets for any manager, but they are no substitute for the statistically relevant causal relationships uncovered through the use of analytical processes. Such processes—when they are used to interpret results and suggest alternative avenues of inquiry—leverage a manager’s existing skills and lend a sharper focus to the application of those skills.

By moving from reports to analyses and by using models, rules, and other analytical methodologies to put true analysis in the hands of employees, management can help them to:

- **Understand how specific behaviors affect the bottom line**—By applying analytical tools to reported data, employees can gain insight into the extent to which activity-related variables, in isolation or in combination with each other, affect revenue, profitability, and costs.
- **Test various assumptions**—Raw data alone provide limited guidance about how to modify behavior for improved outcomes. Through modeling capabilities, employees are able to determine the likely impacts, including potential risks and rewards, associated with various approaches to identified problems.
• *Identify trouble points in processes*—Senior management concerns itself with the strategic implications of process, whereas most employees work within that process. Analysis enables employees to pinpoint obstacles to performance that are embedded in processes and test various scenarios aimed at improving them.

• *Make the best use of existing resources and activities*—Improving performance means optimizing everything you can to support and enhance performance. If we think of the single most effective way to deploy resources as a mystery to be solved, analysis is the key that unlocks it.
In the last nine chapters, I described in detail a unified model for performance management. Models are great, aren’t they? They describe a simple process that always works, always gets good results, and always makes perfect sense.

The problem, of course, is that a model is a representation of something else—a good description of a process, but itself possessing none of the attributes of that process. “The map is not the territory,” we are told by Alfred Korzybski. “The menu is not the meal,” we are reminded by Alan Watts. And so it is that even the best model of performance management does not, in and of itself, constitute improved performance management. Between model and outcome, someone needs to do something. Specifically, someone needs to translate the principles embodied in the model into a series of concrete steps capable of transporting all this theory into the realm of everyday organizational reality.

So how does an organization go about putting these ideas into practice? How does management take the components of the model and shape them into an action plan for improving performance management?
If there is an underlying, uniting blueprint for becoming a performance-driven organization, I believe it is the creation or improvement of the linkages articulated in Chapter 2 and discussed in a variety of contexts throughout this book.

In this chapter, we will consider what we must do to solidify these various linkages, most of which probably have never existed in your organization—or at least have never existed in the manner I have described them. That’s because most organizations don’t appreciate the multiple levels of interconnectedness and interdependencies required to create a truly performance-driven organization.

As with most problem solving, our search for the right solutions needs to begin with asking the right questions. The questions I have in mind are not theoretical or philosophical in nature, each associated with a correct answer and a number of incorrect alternatives, but rather practical questions for which the correct answers are specific to your organization. Performance management is a real-world activity, not a theoretical exercise, and any action plan that is going to have any chance at success must factor in the culture, personality, and existing performance management practices and philosophies of the organization.

Before we examine specific linkages and the steps for creating them, we need to keep in mind a number of points regarding the difference between where your organization is and where it needs to be.

First, and perhaps most important, performance management is not a seasonal pastime. Do not launch an all-out effort to put the model into practice and then sit back and feel good about what your organization has accomplished. If you are serious about improving performance, forget about being first to the finish line. There is no finish line.

Second, the purpose of performance management is not simply to get more out of your workforce but to enable your organization to react quickly and effectively to changes in the marketplace, the economy, politics, international trade, the weather, or any other macro-oriented factor. Because our world is constantly changing, an organization’s strategy for adapting to it needs to be capable of change as well.
Third, I want to stress that even small progress can lead to huge rewards. Adopting the unified performance management model and doing your best to design an action plan that begins to address the various components of the model—even if only directionally and not in complete detail—is a great starting point.

The goal of the action plan is to create or improve those linkages that will result in the greatest and most immediate impact. Keep in mind, though, that any progress is better than no progress, so spending too much time on planning and insufficient time on executing is not the way to go. Using the unified model as a guide, the action plan should touch on all nine areas of improving performance; however, the action plan should prioritize those items that will enable you to achieve some rapid success. No part of your plan should take more than a few months to implement. If it does, you’ve made it too complex.

For example, if instituting an enterprise-wide pay-for-performance plan in which 100% of the workforce has a variable pay plan is too much of a project to bite off just yet, make at least some visible—even symbolic—move in that direction. Perhaps select a small group of people or a particular department and link their merit increases or some other reward to individual goal achievement. Then, publicize the initiative and let others know that the increased use of variable pay is a direction the company is headed in.

As long as such changes are properly communicated and the organization moves away from practices that perpetuate—or appear to perpetuate—any obvious inconsistencies between what managers are saying and what they are doing in practice (such as extolling the virtues of variable pay but not making any movement toward putting more people on variable pay), employees will begin to modify their thinking and expectations accordingly.

Finally, it is more important to create a mediocre plan for rethinking performance management than to ignore a good one. This is a corollary to the old chess adage that it is better to have a bad plan than no plan. Why is that so? Because having no plan deprives you of a frame of reference that facilitates further action.
In the case of poor results, the increased difficulty of identifying specific areas for improvement seems obvious. But suppose that your organization has some good results. Sales are suddenly up. Revenue is growing at double-digit rates. Productivity is through the roof. That’s all great news, and you and your employees have every right to celebrate. But what about the future? How do you leverage these good results to produce great results in the next few quarters—or the next few years?

Amid all the good news, there may also be some bad news. Repeating success is at least as important to a business as not repeating failure. But on what basis are you going to do that? If you do not have anything that could be called a performance management plan, how do you go about replicating those good results? What are the good behaviors that contributed to those results, and how do they correlate with the organizational and individual objectives toward which you have been working? In other words, is the organization properly aligned and, more important, how can that alignment be improved? Without a plan against which performance can be benchmarked, you are pretty much shooting in the dark.

**CREATING AN ACTION PLAN**

Let’s turn now to the specific linkages mentioned earlier and see how we can begin to create them—or improve on them if they currently exist in some form—through a unified approach to performance management. The starting point for where you are going needs to be where you are now, which, by the way, also provides some good insight into where you have been.

Take a long look at the processes by which you align, measure, reward, report, and analyze performance now—not a superficial look but a comprehensive and dispassionate look. Such an analysis should, by itself, provide powerful clues to why past performance may not have been everything you had hoped for. Looking at financial, human resource, and other data provides one perspective; looking at those data...
against the backdrop of the performance management model may pro-
vide a very different and far more useful perspective.

Again, much of what you do with the insights you derive will depend
on the unique character of your organization and the degree to which it
can tolerate change. To begin thinking about an action plan, let me re-
mind you of what I described in Chapter 2. To become performance dri-
ven, 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 re-
  sources
- The pay of each person in the organization with that individual’s
  performance

These linkages can be used to form the overall structure for your ac-
tion plan, and the answers to the questions about each of the linkages
that follow can be used to give you the content for your action plan. A
check list of all the questions to think about in the creation of your ac-
tion plan is shown in Figure 14. A more thorough description of each of
the questions is given in the following sections.

**LINKING THE ORGANIZATION AND INDIVIDUALS**

Linking the objectives of the organization with the goals of its individuals:

- **How and how frequently does your organization set or adjust strategic objectives?** If you are still one of those organizations whose senior management meets once a year to think about its strategic plan, wake up. The world changes faster than that. You need a quarterly process for setting and adjusting strategic objectives.
- **How and how frequently do the different entities that make up your organization set or adjust their objectives?** Like the setting of
Figure 14: Check List of Action Plan Questions

Linking the Organization and Individuals
- How and how frequently does your organization set or adjust strategic objectives?
- How and how frequently do the different entities that make up your organization set or adjust their objectives?
- How well are your organizational priorities driven by consensus across the organization or are they dominated by one particular part of the organization?
- How well are you linking the objectives of suppliers, vendors, partners, and others who are not direct employees to your organizational objectives?
- How well are organizational objectives being accurately communicated across all parts of your organization, both inside and outside?
- How, how frequently, and how deeply are the organizational objectives cascaded down to employee goals?
- How well do your employees understand what they need to do to achieve individual goals?
- How well do your employees understand how individual performance will be measured?
- How consistently are data used to assess objective performance across the organization?

Linking Budgets, Resources, and Objectives
- How well are budgets and resources directly linked to discrete organizational objectives?
- How well is your organization structured to achieve its objectives?
- How consistent are the organizational priorities with the allocation of budget and resources?
- How well do you ensure that organizational objectives are neither underfunded nor overfunded?

Linking Past and Future
- How well are your planned objectives rooted in an analysis of past performance?
- How much are your planned objectives unnecessarily locked in by past performance?
- How well are you using past performance data to set criteria for planned objectives?

Linking Finance and Human Resources
- How are you measuring individual performance?
- How well are individual performance measures tied to financial outcomes?
- How consistent a picture of performance do data from finance and human resources tell?
- How well are you integrating organizational and individual measures of performance?
- How sure are you that successful achievement of objectives will result in better financial performance, or do these two bear no relationship to each other?

Linking Pay and Performance
- How well do your incentive compensation plans reflect each person’s goals and their contribution to achieving organizational objectives?
- How fairly are your people rewarded relative to each other?
- How closely does organizational performance correlate with individual rewards?
- How solid is the relationship between individual performance and rewards?
- How well do people understand their incentive compensation plans?
- How well are you providing timely and accurate information about individual performance so that people can rapidly change their behaviors?
- How broadly across and how deeply into the organization have you driven pay for performance?
strategic objectives, the process of rolling out organizational objectives for different departments or groups should occur quarterly. As for the process, I’ve found that the most effective approach is a quarterly bottom-up method whereby the needs for improving the different parts of the organization are gathered from people on the front lines, synthesized and prioritized by managers, and then pushed back down to employees. A key component of this approach is a review of the prior quarter’s objectives to see whether any of them needs to roll over to the next quarter. Another key component is setting criteria for success that are measurable and easy to understand rather than subjective and vague.

- **How well are your organizational priorities driven by consensus across the organization or are they dominated by one particular part of the organization?** The purpose of the objective-setting process is to coordinate the objectives of the different parts of the organization. This is best accomplished when executives work together to understand the interrelationships and interdependencies among the various objectives. If one organization dominates the prioritization of objectives, the process can result in less than optimal results. I find that this most often occurs when a finance or IT executive or some other gatekeeper without domain knowledge dominates decisions that business users should be making. It is the role of the CEO to moderate and guide the organization through such turf battles.

- **How well are you linking the objectives of suppliers, vendors, partners, and others who are not direct employees to your organizational objectives?** The ability to achieve your organizational objectives may depend just as much, if not more, on people and enterprises that are not directly employed by your organization. It is critical that everyone associated with helping you achieve your objectives understands them and has objectives of their own that are consistent with your objectives. For example, if you are a car maker, there’s no sense having a goal of nearly zero parts inventory if your supplier can’t make deliveries at the exact moment you need them to.
• **How well are organizational objectives being accurately communicated across all parts of your organization, both inside and outside?** Group and department managers must translate organizational objectives into concrete business unit and departmental objectives with specific measurement criteria. The odds of their doing so correctly are improved if they understand the reason behind the organizational objective. To take an obvious case, if an organization wants to improve its image, the public relations department will do a better job of designing an effective, coordinated media campaign if it understands exactly what is driving the initiative to improve corporate image. Is it to increase market share, move into a new market, control damage, or enhance recruitment efforts, or is there some other specific purpose? Departments and the individuals within them can do their jobs in any number of different ways; knowing what lies behind the organization’s stated mission increases the likelihood that they will make good decisions.

• **How, how frequently, and how deeply are the organizational objectives cascaded down to employee goals?** If your objective-setting process is limited to the setting of objectives for organizational entities—and not the people in the organization—you are not executing your strategic plan in a coordinated or efficient manner. The ability to cascade goals deep into the organization—and to do so frequently enough to make individual goals meaningful and attainable—requires a quarterly process with monthly adjustments. Any less frequent and the goals become too broad and lack a sense of urgency. Any more frequent and the goals become too precise and susceptible to the impression of micromanagement.

• **How well do your employees understand what they need to do to achieve individual goals?** Having goals is one thing; knowing how to achieve them is something else. Inspirational and motivational communications may have their place in the enterprise, but they are no substitute for detailed, *usable* information about
the steps that will get you from point A to point B. You wouldn’t try to make a business decision without having at least some information, so don’t ask your employees to do that. Determine what information they need to accurately assess how well they are on track to achieving their individual goals and provide it to them.

- **How well does each of your employees understand how individual performance will be measured?** This is perhaps the most important question to ask in trying to create an alignment between the organization and its people. An employee may have a goal and know how their success will be measured, yet they may not understand the yardsticks to be used in gauging individual success in an organizational context. The deeper their understanding of how their and the organization’s performance will be measured, the more likely they are going to do the right thing.

- **How consistently are data used to assess objective performance across the organization?** Differences in perceptions regarding objective achievement are common within organizations that have a natural tendency to point fingers across departmental boundaries when objectives are not successfully accomplished. If disparate or inconsistent data are being used to analyze success across the enterprise, the unifying rationale for organizational objectives—as well as the basis for translating those objectives into departmental goals and individual behaviors—may be lost.

### LINKING BUDGETS, RESOURCES, AND OBJECTIVES

Linking the budgets and resources of the organization with the objectives of the organization:

- **How well are budgets and resources directly linked to discrete organizational objectives?** Setting organizational objectives and allocating budgets and resources is an iterative process—a juggling act of prioritizing objectives, assigning budgets and resources, and making adjustments until the objectives, resources, and budgets
are in alignment. Your action plan should account for this iterative approach to objective and budget setting.

- **How well is your organization structured to achieve its objectives?** Some organizations are structured along product or service lines. Others are organized around customer or industry segments. To achieve your objectives, take a look at how your organization is structured, both in terms of organizational entities and the roles within each of those entities. As part of your resource analysis, determine whether you have the right number of people in each role. If your objective is to improve productivity, perhaps you have too many people (or they are operating within an inefficient process). If your objective is to launch a new product or services, perhaps you have too few people, or perhaps the people are not properly structured and organized in the needed roles.

- **How consistent are the organizational priorities with the allocation of budget and resources?** Setting priorities often means dealing with several significant unknowns, such as whether there is enough flexibility built in to the budget to accommodate unexpected expenditures. Some organizations resolve to venture forth boldly into new territory but then balk at the thought of investing heavily in it. After all, if the initiative is bold and new, it may require you to take on risks that your organization might not be completely comfortable with. Perhaps it’s better to invest only in what you can afford to lose—except that by doing so you just might ensure that you will lose it.

- **How well do you ensure that organizational objectives are neither underfunded nor overfunded?** Without proper funding, the initiative is doomed to failure. Almost nothing has a more harmful effect on productivity and morale than to undertake a worthwhile objective without providing adequate funding for it. If it’s a high priority, the funding for it needs to reflect that. On the flip side, with too much funding, you may be depriving other initiatives from coming to fruition.
LINKING PAST AND FUTURE

Linking the measurement of past performance with adjustments to the future direction:

• How well are your planned objectives rooted in an analysis of past performance? Past outcomes are not for bragging rights but rather for helping to set the bar for future performance. Some objectives aren’t ever going to be achieved, which is something we ought to be able to see simply by studying what we’ve accomplished or not accomplished in the past. Before taking on new objectives, look at past performance and determine what it will take to succeed. If past objectives failed, determine the factors that contributed to that failure and decide whether those factors are still in play. If the organization lacked certain necessary skills in the past, has that gap been adequately addressed? If a competitive product stood in the way of making any headway regarding market share, has the competitive situation changed since then? What didn’t work once won’t work this time either unless something has changed. Determine what, if anything, has changed and whether proposed objectives are more realistic because of that change.

• How much are your planned objectives unnecessarily locked in by past performance? This is the flip side of the last issue. Learn from the past, but don’t defer to past performance no matter what. Determine whether there are objectives you failed to undertake solely because of past failures and whether significant internal or external changes may have been ignored. For example, if attempts to add new customers have routinely shown poor results, are you more likely to adopt objectives that rely on increasing revenue from existing customers, even though a new customer or new market strategy may be called for? If so, have you tried to pinpoint the cause of previous failures? Is it insufficient funding, inadequate cold-calling skills, or some other shortcoming that might easily be repaired through training, better recruiting, or a few more dollars in the budget?
How well are you using past performance data to set criteria for planned objectives? Objectives must be associated with specific, typically numerical, criteria for performance. These metrics should be set based on a thorough analysis of past performance to understand why and how the criteria are achievable. This ensures that the criteria are not too difficult or too easy to achieve. If goals are too difficult, people give up. If they are too easy to achieve, you are not stretching your people to perform.

LINKING FINANCE AND HUMAN RESOURCES

Linking the information in finance with the information in human resources:

- How are you measuring individual performance? Perhaps human resources has spent months or years designing what it considers to be the perfect, industry-standard evaluation forms and procedures, but that doesn’t mean that this is how you should be measuring the performance of your workforce. In all probability, if you want to improve the effectiveness and productivity of your workforce, there’s a need to rethink both the frequency of measurement and the types of measures used to assess individual performance.

- How well are individual performance measures tied to financial outcomes? Finance tends to take a one-dimensional view of performance: If we’re making more revenue, using fewer resources, and generating more profit, we’re doing well. Human resources, on the other hand, is concerned with individual behavior: If people are meeting their objectives and getting good evaluations from their managers, we’re doing well. The problem, of course, is that the two worlds need never intersect. In these separate universes, employees can be highly rated even though they never contribute a dime to the bottom line of a company that may be on the verge of collapse, and employees can be poorly rated in spite of significant contributions to the bottom line of a highly profitably company.
Needless to say, neither situation can continue for very long—in the first case because the company won’t survive for very long, and in the second case because employees aren’t going to hang around for very long. You need to determine whether these two worlds are coexisting and, if not, what can be done to help them coexist.

- **How consistent a picture of performance do data from finance and human resources tell?** Finance says that the organization is performing poorly. Human resources says that the entire workforce is performing at the highest possible levels and that everyone is getting great performance reviews. This, sad to say, is not an uncommon situation. So are finance people from Venus and human resources people from Mars? By using a consistent set of measures across the organization and all its individuals, it is possible for everyone to agree on whether the organization (a complete entity, including its people) is performing well or performing poorly.

- **How well are you integrating organizational and individual measures of performance?** When human resources and finance (or manufacturing and sales or some other groups within the organization) can agree on what constitutes good performance, not from their own perspective but from an organizational perspective, it becomes possible to create a linkage between the activities of people and the measures of organizational performance. Without an integrated approach to measurement, there is no valid basis on which to posit those relationships.

- **How sure are you that successful achievement of objectives will result in better financial performance, or do these two bear no relationship to each other?** Once the relationships between objectives and expected financial performance are understood, you will be able to cascade objectives down to all levels of the workforce. Understanding this relationship is important because it is possible that short-term individual performance may not correlate with better financial numbers. For example, consider the case in which a change in long-term strategy requires refocusing workforce activities in such a way that company revenue temporarily falls. In this case,
employees should be measured on their contribution to the achievement of long-term objectives and not necessarily by what will bring in the most revenue this quarter.

**LINKING PAY AND PERFORMANCE**

Linking the *pay* of each person in the organization with that individual’s *performance*:

- *How well do your incentive compensation plans reflect each person’s goals and their contribution to achieving organizational objectives?* In other words, are you rewarding the right things? Again, we don’t want to be offering rewards for behaviors that do not benefit the organization. We also don’t want to damage employee morale. If employee A contributes quietly but materially to the organization’s bottom line while employee B, who has little impact on anything, receives a better performance rating and a larger merit increase because of some vague notions regarding his or her being a “team player,” should we be surprised when employee A jumps ship in response to the first outside offer that comes his or her way?

- *How fairly are your people rewarded relative to each other?* Managers need to take a close look at how their employees are compensated, not simply in relation to the going rate in the marketplace (though that’s obviously important to consider) but also in relation to each other. Can an employee’s higher compensation be justified within the framework of corporate and departmental objectives? If not, then on what basis are we more richly rewarding one employee over another? Obviously grade level, responsibilities, and skills are relevant, but in the case of compensation differences that cannot be explained solely by those factors, we need to look at how we are weighting performance and whether our weighting system comports with organizational and, by extension, departmental priorities.
How closely does organizational performance correlate with individual rewards? Stated otherwise, is it possible that no one should be rewarded? We run into this most often—or at least most visibly—when the CEO of a failing corporation receives a seven-figure bonus. So much for pay for performance. But it happens also at lower levels, where certain employees (most often team players with winning personalities) may receive sizable bonuses or other incentive compensation in spite of the organization’s failure to achieve its objectives. So, where do you draw the line in rewarding the employees of a failing organization? Do we still reward top performers, although in all likelihood (based on the organization’s miserable performance), we have seriously miscalculated what it takes to be a top performer in this environment? These are tough questions, but that doesn’t mean we shouldn’t ask them. Managers need to evaluate the relationship between organizational performance and individual rewards and decide whether the latter accurately reflects one’s present and likely future contribution to the achievement of organizational objectives.

How solid is the relationship between individual performance and rewards? Are you truly paying for performance, or do you allow situations in which the relationship is not so clear? For example, if you want to do what you can to keep a long-term employee on board, even if their performance is not on the same level as those of his high-performing peers, do you allow factors beyond performance to come into play? If so, you don’t have a pay-for-performance culture.

How well do people understand their incentive compensation plans? The objectives of the organization and the goals of individuals should be reflected in people’s variable pay plans. Effective communication of the plans is the first step. The second is the reinforcement of the plan through frequent communication of results. If people understand their plans, they will understand the objectives and goals embodied in the plans.
• How well are you providing timely and accurate information about individual performance so that people can rapidly change their behaviors? Understanding the plan is but one step. Building trust and motivation around the plan depends on timely and accurate communication of the results to each individual. The goal of providing information to individuals is to enable and motivate them to change their behaviors before they get their paychecks. If you’re paying someone quarterly but not reviewing and (if necessary) modifying their goals monthly, you’re not giving that person sufficient time to achieve a positive impact on individual performance.

• How broadly across and how deeply into the organization have you driven pay for performance? Pay for performance is about shifting from an entitlement culture, in which everyone with the same tenure or role gets the same compensation, to a culture that is rooted in differentiation based on performance. So, is every single person in your organization on a variable pay plan that is linked to their individual success at helping the organization accomplish its objectives, exemplifying your organization’s values, or achieving other measures of personal success?

CUSTOMIZING YOUR APPROACH

To state the obvious, every organization is unique. Many are structured along similar lines and have the same fundamental division of functions and allocation of responsibilities. But the tangible effects of corporate culture, organizational character, or personality cannot be overstated. Some organizations can tolerate, adapt to, and even embrace change; others keep kicking and screaming long after major changes have already taken place. Where you begin to transform your organization into one that is driven by performance depends on its unique character.

In thinking about how to roll out your action plan, you are in a much better position than I am—with your understanding of the culture of
your organization—to determine the best rollout strategy. To get you started in your thinking, here a few ideas for a plan rollout process and associated questions (yes, more questions!) to think about:

The CEO begins by explaining the importance of becoming a performance-driven enterprise.

- How do your employees best receive information of major initiatives?
- Do you generally communicate such things by television, webcast, or e-mail?
- Are the communications interactive?
- Do you seed the process with a series of informative articles in your internal publications?
- Do you prefer to use department managers to filter the information to employees?

The CEO outlines the logic of having departmental objectives and individual goals reflect the organization’s strategic objectives.

- How is this information best packaged in your organization?
- Must employees have the “what’s in it for me” list included along with the logic, or is this likely to undermine the conceptual discussion from which all else follows?

The CEO explains that one of the significant measures of individual performance is the achievement of personal goals that will be set quarterly, aligned to enterprise priorities, and associated with objective criteria for performance.

- What will cause your employees to rally behind this concept?
- Will this be such a dramatic change to the culture that extra effort needs to be spent helping people understand this concept?

Managers work with each of their employees one-on-one to make sure the goals are well understood, and at least once each month, they review goal progress.
• What should this process entail?
• What guidelines are needed to help managers make the process most effective?
• What context will managers provide to help employees buy into and understand their goals?
• How will managers get into the rhythm of doing monthly progress reviews?

During the quarter, a number of high-visibility communications to all employees highlight progress toward achieving objectives and profile individuals who are contributing to objective achievement.

• What tone should you take in these communications? Carrot? Stick? Something in between?
• What about frequency of communication?
• Do your people tend to become desensitized through over-exposure? Or does out of sight equal out of mind?
• Progress updates are delivered periodically, each reinforcing the rationale and anticipated benefits of proceeding down this particular path.
• How much detail should be included in these updates?
• Are written annotations sufficient, or should there be a televised panel discussion followed by questions and answers from employees to ensure that the message continues to get through?

Corporate, departmental, and individual objectives are revised, performance measurements recalibrated, and incentive compensation plans revamped to reflect the new priorities.

• How much of the process itself should be visible?
• How much is too much information?
• Will employees want to know how many meetings were held to discuss the new incentive compensation plan, what alternative plans were considered, why this one prevailed, and by what margin on the executive committee?
Or do they prefer to be spared the details, perhaps wanting only the opportunity to ask questions and the assurance that they will be given answers?

All provisions of the initiative are publicly discussed and disseminated.

Again, the optimal choice of forum, timing, promotion, and personalities depends on the unique character of your organization.

For those too busy to think through all of the details, check out the action plan shown in Figure 15 for the really busy executive, which shows you where to focus your efforts if you don’t know where to begin.

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**Figure 15: Action Plan for the Really Busy Executive**

**Action Plan for the Really Busy Executive**

Although this unified model of performance management is meant to provide you with a framework for thinking about your organization and the discussion of the various missing linkages is meant to get you thinking about your action plan, I would not be surprised if your head is spinning with a mélange of ideas about where to begin and where to focus your priorities.

With this in mind, I’ll divulge my bias—the parts of the performance management model that I’ve found over the past 15 years to have the greatest and most immediate impact on the success of Synygy. My bias is rooted in the concept described at the end of Chapter 3. The most efficient path from a current state to a desired goal is a straight line, and the way to keep each person in the organization on a straight path is to set quarterly goals, provide frequent monthly feedback on goal performance, and link goal achievement to quarterly bonuses.

My suggested action plan for fast-trackers is to focus on the following two processes *first*:

1. Set organizational objectives and cascade them down into the workforce each quarter so that every employee has goals aligned with these objectives.
2. Create incentive compensation plans for all employees that link goal achievement (and other aspects of individual performance) to quarterly bonuses.
In the next chapter, we will discuss the factors that will drive the success of your action plan.
Having an action plan is the first important step toward becoming a performance-driven organization. But before any steps are taken, management must provide an environment in which they can be taken.

Unlike most organizations, some companies “get it”—maybe not everything there is to get about performance management, but they get a lot of it. They know that performance management isn’t just about financial numbers, employee evaluations, or any other single factor. They know that it’s about a combination of factors, every one of which is essential to achieving a performance-driven organization.

Many of the companies that understand these concepts started out by doing exactly what most companies still do—believing that business performance management or balanced scorecard or six sigma was the answer to every problem that had anything to do with performance. Unlike these other companies, however, they recognized a need to try something different. Even without the benefit of the performance management model I have described in this book, they instinctively put into practice some of its steps.

Why is it, then, that so many organizations that have adopted some of these steps have been left wondering why their investments in improved performance are not having the desired impact? Do some steps
work only for certain types of organizations and not others? Must the average organization go through several sessions with an industrial psychologist before it can design and implement a customized performance management strategy?

Clearly there are differences in corporate culture or organizational personality that need to be taken into account in making just about any major decision in any corner of the organization. In everything from instituting a dress code to planning a company event to restructuring the workforce, management knows that certain implementation and communication strategies are more likely to work well than others, and what has worked in some companies may not work in others.

Regardless of differences in culture, however, there is a need to create the five linkages addressed in this book to become performance driven. The management of every organization needs to align, measure, reward, report, and analyze—to put into practice the nine components of the performance management model. There are no judgment calls about whether to do some and not others.

In the case of an action plan for becoming performance driven, cultural differences enter into the picture in the realm of tactics for executing the plan. They affect how management links organizational and individual objectives, how they link finance and human resources, and how they link pay and performance. That’s where there’s plenty of room for creativity keyed to the specific qualities of each unique organization.

How management creatively leverages the organization’s cultural personality in executing the action plan provides the context for improving performance and, ultimately, determines the extent to which the organization’s efforts will succeed. But before we discuss the factors needed to successfully execute your action plan and why each of these factors is so important, we need to think about the attributes of failure as well, for the latter are the source of the former (the context for the context, if you will).

Corporate initiatives—including the desire to become performance driven—can fail because of any number of internal or external causes. When reduced to their simplest terms, however, most initiatives,
whether they involve marketing or sales or human resources or even information technology, fail for one of two reasons. The first is that employees don’t take the initiative seriously; instead, they assume that management is just going through the motions because doing so looks good, sounds good, or is required by law. The second reason is that, even if employees believe that management has a sincere interest in undertaking the initiative, they can’t easily figure out what’s in it for them (that is, the employees).

There is obviously some overlap between these two reasons in many situations. In most cases, however, one reason or the other is the primary culprit. Consider, for example, a situation in which senior management offers some additional form of public recognition—including a significant financial reward—to high-achieving senior managers. The stated purpose may be to encourage and reward strategic behavior, and management may indeed have good reasons for instituting the program and remaining committed to its success. If potential honorees are limited to vice presidents, however, the one thing that many employees will come away with is, I work harder so that my boss can prosper? Hey, what’s in it for me?

So, then, when we compare results for organizations that have failed and those that have succeeded in implementing an initiative, are differences solely a matter of execution? Do some organizations just do a better job of translating the theoretical into the practical, the abstract into the concrete, the general into the specific?

Although I think execution is a big part of it, execution is hardly a random event. It doesn’t happen in a vacuum. A few paragraphs ago, I introduced the idea that there is a context for performance improvement and suggested that whether an organization executes well depends to a large extent on the context that management has provided for the initiative. If creating a performance-driven organization is analogous to planting seeds and nourishing the growing flowers with light, water, and other appropriate nutrients, then providing the right context for improved performance is equivalent to finding the right soil in a location that is exposed to the right amount of light and protected from the elements.
So, what kind of soil and location are we talking about? What constitutes the right context in which to undertake the steps to effective performance management? I think there are four contextual attributes that every organization must provide if it hopes to succeed in its quest to successfully execute its plan to become performance driven. These attributes of success are:

- Top management commitment
- Organizational orientation toward the future
- Rewards for people who rally behind the initiative
- Solutions to operationalize the concepts

TOP MANAGEMENT COMMITMENT

Much has been written about corporate culture over the past few decades—probably even more than has been written about performance management. The two topics have much in common. Just try creating a performance-driven enterprise without taking culture into consideration and see what happens. Creating a performance-driven enterprise is about nothing if not culture. It is a major undertaking that requires visible commitment, advocacy, and leadership at the highest levels of the enterprise.

Perhaps the key word in all this is visible. Management commitment that is not visible—that finds expression only in boardroom discussions and for-our-eyes-only memos—will do little to bring real change to the organization. For anything to occur five or six layers down the organizational chart, which is where real change has to take place, management must demonstrate, openly and often, its commitment to creating a performance-driven enterprise and to taking the steps required to achieve it. It must have a clear plan and must support the initiative at every turn through clear and effective communications directed at employees, stakeholders, process owners, customers, suppliers, and partners.

Most senior managers understand the importance of visibly demonstrating and effectively communicating their commitment. Unfortunately, understanding by itself doesn’t buy you very much.
Consider the way a performance management initiative plays out in a typical organization: The CEO announces that the company will henceforth be a performance-driven enterprise, and everyone therefore needs to work not harder, but smarter (though harder and smarter is never officially discouraged). A committee is empanelled to drive the initiative. Names are named. A month later, those names report that rules of engagement have been agreed to. A barrage of PowerPoint slides follows. Another month passes. Then six. Except for a two- or three-word highlight appended to a list of similar accomplishments in the annual report, one never hears another word about performance management or the once-proud committee responsible for its well-being. The organization continues down the same path it had been traveling prior to that flurry of activity. In time, all memory of the initiative is wiped out.

Based on the principles laid out for creating an action plan in Chapter 13, the right way to do it goes something like this: The CEO begins by explaining the importance of becoming a performance-driven enterprise. He or she outlines the logic of having departmental objectives and individual goals reflect the organization’s strategic objectives. Furthermore, he or she explains that one of the significant measures of individual performance is the achievement of the employee’s personal goals, which will be set quarterly, aligned to enterprise priorities, and associated with objective criteria for performance.

When rolling out an action plan the right way, managers work with each of their employees one-on-one to make sure the goals are well understood, and at least once each month they review goal progress. During the quarter, a number of high-visibility communications to all employees highlight progress toward achieving objectives and profile individuals who are contributing to objective achievement. Progress updates are delivered periodically, each reinforcing the rationale for, and anticipated benefits of, proceeding down this particular path. Corporate, departmental, and individual objectives are revised, performance measurements recalibrated, and incentive compensation plans revamped to reflect the new priorities. All provisions of the initiative are publicly discussed and disseminated.
ORGANIZATIONAL ORIENTATION TOWARD THE FUTURE

Organizations that are able to stay focused on guiding their future are those that will most rapidly become performance driven. To put this into perspective, try making two lists: one that contains the performance-related processes (both organizational and individual) in your enterprise that are rooted in understanding, evaluating, or measuring the past, and another list of processes that are rooted in predicting, planning, or guiding the future.

Processes that are about the future include setting organizational objectives, cascading objectives down into the workforce, doing incentive compensation modeling, setting and adjusting sales quotas, and forecasting revenue.

The goal is for the list of future-related processes to be at least as long as the list containing processes about the past. As the list about the future becomes longer than the list about the past, you are moving from managing performance to driving performance (as shown in Figure 16).

REWARDS FOR PEOPLE WHO RALLY BEHIND THE INITIATIVE

Top management commitment is important, but, as I noted previously, even if employees (and others) believe management is serious, they won’t get on the bandwagon unless they also understand what’s in it for them. Improving performance sounds like more work—and why would anyone want to sign up for that? The short answer to that question—albeit not the only one or the most thoughtful one—is money. Not surprisingly, a key element of successfully creating the performance-driven enterprise is the notion of pay for performance.

In some ways I am asking you to solve a chicken-and-egg problem. Can you use pay for performance to create a performance-driven organization in which developing a pay-for-performance culture is a central element of becoming performance driven? Yes, you can. In fact, from
my perspective, the rollout of incentive compensation and other forms of rewards that are tied to individual goal achievement is the most important step toward becoming performance driven.

After all, if adopting the required performance management practices throughout the organization is a strategic objective of yours, why not create goals for all employees—or at least all managers—that are tied to the achievement of that objective? And why not link goal achievement to some form of reward? By showing this direct connection between performance and pay, management demonstrates that performance management systems can indeed deliver on their potential—that this is not a case of empty words but a new way of doing things that management supports and is willing to reward.

Many employees will never come fully on board with the concept of variable pay unless there appears to be a real chance of receiving some
return on their new investment of time and energy. An effective and equitable pay-for-performance program sends a powerful message from management: *Adopt behaviors that benefit the organization and we’ll pay you for it.* Backing up the performance management initiative with a system of rewards for high-performing employees is far more effective at helping to build a performance-driven organization and culture than all those wall posters and memos from the CEO that we normally associate with campaigns to change employee behavior.

**SOLUTIONS TO OPERATIONALIZE THE CONCEPTS**

Earlier, I warned you that software is not the solution; in fact, I have avoided all mention of software since then. That’s because I wanted you to focus on *process.* Remember again, as I stated at the outset, becoming performance driven is a process issue.

That said, once you have thought through all the process issues—and maybe even spent a few quarters or even years manually administering performance management processes—you will want to improve the efficiency and effectiveness of your efforts through process automation. And that often involves implementing process automation solutions. But by no means does that mean you need to go out and spend a lot of money on an enterprise software solution and a team of systems integrators to try to get all the pieces to work together.

What it does mean is that you need to prioritize which processes are most in need of automation and which processes, when automated, will result in the greatest return on investment. At the same time, this must be done within an overall framework that is consistent with the nine building blocks of the performance management model. Fortunately, each of these nine building blocks—and some of the subsets of processes within each building block—fits neatly into a self-contained package that can be implemented independently of the others.

For example, a web-based process for setting and cascading objectives throughout your organization can be put in place completely, without suffering any adverse impacts from a concurrent need to automate
reporting of financial results. A solution to enable you to more effectively administer your incentive compensation plans can be put in place independently of a desire to improve your analytical capabilities. And a solution for setting and adjusting sales quotas can be put in place in parallel with a sales force automation system.

Even in these examples, software is not necessarily the solution. In fact, software—even if such software exists for automating the process—may not be the best solution. The best solutions, depending on your organization’s resources, capabilities, and experience, may be a hosted software-as-a-service solution or an outsourced managed services solution—one that enables you to rapidly and cost-effectively automate these processes while limiting the use of your scarce internal information technology resources or expensive systems integrators.

For a unified performance management strategy to have any chance of succeeding, management must demonstrate its genuine commitment to the initiative, develop a future-oriented view of the world that is centered on objective achievement, promulgate a system of rewards that favors the behaviors required for the initiative to succeed, and fashion solutions to operationalize and automate the various performance management processes. With this context for implementing your performance management action plan as a guide, employees will be far more likely to sign on, modify their behaviors, embrace the emerging performance-oriented culture, and work actively to make the performance-driven organization a reality.
CONCLUSION

“A problem well stated is a problem half solved,” wrote American engineer and inventor Charles Kettering. What I have attempted to do in this book is state an approach to solving the performance management problem in terms that accurately reflect the issues that organizations are facing today.

In practice, we now have multiple views of what constitutes performance management—a world’s fair of acronyms, each purportedly capturing the subject’s true essence. Yet each view is limited, representing only one aspect of enterprise performance. Is it any wonder that management’s well-meaning initiatives in this area fall by the wayside and that, after investing time, money, energy, and reputation on a campaign to improve performance, senior management often has nothing to show for its efforts besides an impressive collection of PowerPoint slides documenting its good intentions?

In this book, I have also tried to show the fragmentation that inevitably results from these distinctly parochial, silo-based, self-serving approaches to performance management, as well as from the natural and predictable differences in worldview among the varying functions within an organization.

In a sense, this fragmentation is entirely predictable, representing nothing more than the typical mélange of worldviews found in nearly every functionally compartmentalized organization. These differing,
narrowly focused perspectives have always been with us, and it’s not likely that we’re going to change them overnight. Still, if our goal is to become a performance-driven organization, we need to do whatever we can to get everyone on the same page.

Does this mean changing people’s preconceived beliefs about performance management? Well, that would certainly be nice and, as a long-term objective, worth pursuing. If, however, the success of your performance management initiative depends on first getting everyone to agree on a shared worldview, you are probably going to be disappointed. As with most things, behavior is a lot easier to change than beliefs.

When it comes to the basics of performance management, no matter what you say or do, human resources is still going to do performance appraisals, finance is still going to ensure that financial reporting complies with government regulations, and sales is still going to do whatever possible to beat its quotas.

There are, however, ways to minimize the negative impact of having multiple, often competing perspectives. Above all, it means having a collaborative process for setting objectives across the organization that reflect the causality and interdependencies among different cross-organizational objectives. But it also means cascading these objectives down into the workforce so that every person’s goals are aligned with the organization’s objectives. And it means linking the pay of every employee to their success at meeting those individual goals.

An essential feature of effective performance management is the flexibility to rapidly adapt to change. We are dealing with a dynamic process, and we need to be ready to turn on a dime to revise our objectives, realign our resources, modify our measure of performance, adjust our reward systems, and change how we report and analyze data.

This means that, from a process perspective, some things are going to have to change for your organization to become performance driven. The objectives we create today are only as good as the workforce that works on them tomorrow, the marketplace in which we try to achieve them, and the political and economic climate that affects, directly or indirectly, everything we do.
This means that you cannot set annual objectives and goals and then wait a year to evaluate them. You cannot do annual performance appraisals that are (at best) tied to a small difference in merit increases. You cannot pay people annual bonuses based on the overall success of the organization. You can and must think in terms of quarterly processes and frequent assessments of progress against goals. You must get all employees to be “coin operated”—that is, to have their pay tied directly to their performance. In essence, you must get every part of the organization and every person drumming to the same beat and marching in step.

I have gone out of my way at several points to note that software is not the solution to the performance management problem—that this is a process problem. The danger in jumping on the software bandwagon with one or more of those choice acronyms you have been hearing so much about is that the underlying process problem will never be addressed. That’s why, before you commit to one or more of these well-marketed software panaceas, your organization needs to rethink its performance management processes. Once new processes are formulated and embraced by the organization, they can then be automated by implementing various solutions—whether software, hosted software as a service, or outsourced managed services—that exist for that purpose. Be sure, however, that such process automation is driven by business users with specialized domain expertise, not by some technologist who is enamored of his favorite operating systems, database applications, and web servers.

Finally, you need to bear in mind that becoming a performance-driven enterprise is not a short-term process. Going through all the necessary steps will take time, but the tools are available to get started now. For many organizations, becoming performance-driven will cause a cultural upheaval that, at least in its early stages, will result in a lot of discomfort. It will cost money as you make the initial investments. It will 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 will cause turmoil and the perception of chaos.

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.
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