

Is Your Performance Management System Working?



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Overview

For an organization to reach a desired result, it must have some process or mechanism to get the needed output from its human resources. This process is generically called a Performance Management System. An organization gets results through the managed behavior (performance) of people to accomplish the steps in the company's business processes. Without some steering or managing mechanism to ensure that personnel energies are directed to the right ends, an organization cannot be sure of the results that will be delivered over any period of time.

There are two classic Performance Management Systems that organizations use to steer the behavior of the people they employ. The first mechanism, Contractor Management, is used for steering the behavior of people who are not employees but, rather, work for a commercial service provider. The second mechanism, the Employee Performance Management System, is used for steering the behavior of people who are on the payroll as full or part-time employees.

When both of these Systems are aligned and working effectively, the organization has the capability to steer both kinds of manpower to get the work product needed for the company to achieve its desired results.

Evidence indicates that the system most likely to be effective is the Contractor Management System. The following begins with a discussion of this system since the principles needed for effectiveness are easier to describe and recognize in that context.

Managing Contractor Performance

This first System, Contractor Management, is normally a part of the company's procurement process and includes such critical (and logical) steps as follows:

1. Defining the desired work the company wants from a contractor/vendor
2. Locating, negotiating, and reaching agreement with a contractor who can do the desired work
3. Explaining the work to be done to the vendor and ensuring understanding
4. Familiarizing the vendor with the way the company works
5. Authorizing the vendor to begin work
6. Monitoring contractor performance over time
7. Ensuring that the contractor has completed the required work and is paid in accordance with the negotiated agreement

The primary administrative vehicle used in this process is the written Contract. This instrument, signed by both the vendor and the organization, contains key sections that are necessary to ensure the desired performance:

- **Statement of Work** – identifies precisely what the contractor is to do for the hiring company during the specified time period

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- **Qualifications** – specifies what skills and capabilities the contractor is required to bring to the assignment
- **Performance** – tells the contractor how performance will be measured, monitored, and evaluated
- **Payment** – spells out the agreed-to payment terms for the desired work
- **General Terms** – describes how the contractor and organization will do business together during the contract period.

In practical day-to-day terms, negotiating contracts with service providers is normally handled by the organization's procurement function. The day-to-day management of the contractor is usually handled by an operating manager who is utilizing the contractor's services to do designated work for the company. This "employing manager" directs the contractor's performance as necessary within the scope and arrangements of the contract.

As the work needs of the organization change, the employing manager works with procurement and the contractor to modify and re-negotiate the contract. The employing manager keeps the contractor and the contract aligned with the work requirements of the organization until there is no longer a need for the contractor's services. At completion of the agreed-upon work, the contract is terminated, and the contractor and the organization go their separate ways.

Managing Employee Performance

In theory, employee performance is managed very much like contractor performance. Just as with a contractor, an employee must be "under contract" (i.e., under a mutually understood agreement with the manager) to do the work of the organization in order to receive compensation. With employees, there is usually not an actual written contract like that used with vendors – in practice, very few employees have a written contract.

The point is that all employees work under an "agreement" with the company (the equivalent of a contract): employees understand that they are to do certain things for the company in order to be paid at the end of the month. But whatever terms are used, employees must be "under agreement" to do the work that is needed.

The steps needed to get employees "under agreement and to do the work" for the company are similar to the steps taken with contractors. The following interrelated steps, performed systematically and responsibly, are required:

1. Think through the work needed from an employee.
2. Find an employee who has the skills and capabilities necessary to do that work.
3. Communicate the work to the employee and secure his/her understanding and willingness to do the work (at this point the employee is "under agreement").
4. Provide any training needed by the employee to be able to do the work.
5. Have the employee begin work.
6. Ensure the employee gets feedback on how his/her work is progressing.
7. Evaluate employee performance and ensure the employee is properly/fairly compensated for his/her services.

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It is important to note that the simple steps above only work when they are “internally aligned” and systematically applied. For example, if the manager thinks through one kind of work, hires someone who only has skills for another kind of work, tells the employee about still another kind of work, and evaluates the employee’s performance relative to yet another kind of work, it would be safe to say that the performance management system was not internally aligned. (This scenario sounds stupid, yet it happens all too often.)

The key message is a simple one: for long-term success in Employee Performance Management, employees must always be “under agreement” to do the work of the company. And as the requirements of the work change, it is up to the employing manager to keep an up-to-date agreement in place at all times.

As in the case of contractor management, the employing manager works with representatives of the Human Resources unit for assistance in completing the basic steps in managing employee performance. The attached figure shows the key performance management actions taken by both the employing manager and the human resources unit in one company. While the details may vary from company to company, it is critical for the employing managers and the human resource managers to come to clear agreement on how they will work together to ensure effective and efficient performance management.

The Big Problems in Performance Management

Not all Performance Management Systems work effectively. Many companies struggle with “classic problems” in performance management. While many of these problems apply to both Contractor Management and Employee Performance Management, by far the most serious and flagrant problems occur with the Employee system. Some of the more common and significant problems include the following:

The Unclear Statement of Work Problem

By far the biggest problem in this category is the “too vague, too general” Statement of Work. Employees in many companies are given little direction about their work except for statements like “do a good job” or “do what you gotta’ do” or even “just make money for the company.” While some of these phrases may sound good in this time of “participation and empowerment,” they are actually worthless (if not destructive) in performance management.

In Contractor Management we would not think of taking the Statement of Work section of the vendor’s contract casually – and yet that often happens with employees. The solution to this problem is clear, although some will say it is out of vogue. The organization, represented by the employing manager, must tell the employee what he/she is expected to do for the organization. It is the boss’s job, and there is no way around it. Even with employee participation in formulating the appropriate “what needs to be done” charter, it is still the boss’s job to say it officially – and to say it in detail and with specificity.

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The Unchanged Statement of Work Problem

Sometimes the nature of the work or the specific task(s) needs to change. This can be due to a shift in priorities, to a change in preferred methodology or to some more profound change, like an effort to change the culture of the organization, a reengineering effort or something else. A question that ought to pop up in these situations is, “Has the Performance Management System been engaged?” And when this question is asked, many managers will respond by asking, “What does the Performance Management System have to do with this?”

The answer is relatively simple. Employees, like contractors, keep doing what they are doing in the way they are doing it until the agreement about what they are supposed to do has been modified. When the task is being change, most managers will naturally “change the agreement” by telling the employee what the new task is and what to do about the tasks already on the employee’s do-list. When the change is more subtle or less directly connected to a task list, the odds of an “agreement modification” are much lower. For employees, the agreement may have been formed in many ways – a direct conversation with the manager who hired them, the job descriptions they were given for their positions, the set of goals that represent this year’s targets, etc. And it may have become subliminal – something that they no longer think about consciously. Regardless of the form of the agreement, the employee will, in most cases, continue to follow the old agreement because that is what they think they should do in order to be paid. After all, that is what they have been paid for in the past. This is like one of Newton’s laws; a body moving in a certain direction keeps moving in that direction until acted upon by some outside force.

In Contractor Management, it would be unthinkable to expect a vendor to change from one type or mode of work to another without submitting a change notice to alter the contract statement of work. And if management does try to change direction without the contract change, the vendor is sure to remind him that what he is asking for is “outside the scope” of the contract. Yet some managers insist on trying to change employee behavior without changing the employee agreement.

The Performance Management System solution is to change the employee’s agreement explicitly whenever a change in the direction of performance is needed. This changing of the agreement might involve new goals or a new job description. For sure, the change should include a discussion between manager and employee followed by a “handshake” on the new agreement. Some employees still might not change behavior after a new agreement (that, however, is a different problem). Never-the-less, the first step needs to be a clear change in the agreement.

The Failure to Shoot Straight Problem

This problem is also known as “I Couldn’t Possibly Tell Him That!” This problem is all about not telling the employee the straight truth either about (1) what the organization wants/needs for him to do and/or (2) not serving up the unvarnished truth/facts about her level of performance.

Failure to tell the truth leads employees to believe they are at one place while the organization believes they are at another. When this problem is present, employees tend to become

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disengaged and complacent – sometimes oblivious to any problem, sometimes vaguely aware that they are not “on track” or in the boss's good graces but puzzled about why.

In Contractor Management, we would give the vendor an accurate statement of work or performance evaluation because it is so obvious that it is necessary to shoot straight if the desired performance is to be achieved. Fear of hurting the vendor's feelings would not be a consideration; it is just good business.

Communication with employees should be handled the same way. It is natural to use an approach that minimizes hurt feelings, but it is really not about that. It is about communicating well and doing good business for the company. Just as with the Contract Management System, truth is a requirement for the Employee Performance Management System to work at all.

“Telling it like it is” is difficult for many managers. Management training can help. Perhaps equally effective tactic, though, is to evaluate managers on how well they do in Performance Management. Having this show up on a performance evaluation check list will get the manager's attention. And it should; it is just as important as any other task on a manager's plate.

The Work Goes On Problem

A key aspect of contractor management that makes it “easier” for many managers to deal with is the finite duration of the contractor project and, therefore, the contract. The natural stops and starts associated with vendor management make it easier to get clarity on the statement of work and then to give a final evaluation of how well that work was done.

For employees, on the other hand, it's harder to find “starts and stops” – their work just goes on. To remedy this problem, many companies use an annual employee goal setting and performance appraisal process. Goals are set with the employee for the next year and performance during the preceding year is appraised. In theory, at least, the result of the performance appraisal is a key input to decisions on the employee's compensation level (although some companies in recent years have been trying, rather unsuccessfully, to separate the two). These calendar-based stops and starts give the employing manager the opportunity to shoot straight about both needed work for the new year and performance results for the ending year.

The problem is that many organizations are neither precise nor systematic about the way they handle goal setting and performance evaluation. For many employees, the new year starts without clear feedback on their performance last year and without a clear statement of work (goals and directions) for the new year. For most employees this translates to “just keep doing what I have been doing” rather than precise steering of behavior or actions toward important company goals.

In Contractor Management, the expiration date of the contract would not be allowed to come and go without taking some actions to evaluate the service under the contract and re-negotiating another one.

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The solution to this problem is simply to treat employee work as though it were contractor work – with concrete stops and starts during which there is clear communication of statement of work and direct feedback on the quality of work performance. This problem is solvable if the organization has dedicated leaders who maintain the discipline of the Performance Management System.

The Paycheck Talks Problem

Employees understand that the paycheck talks. What people get pay, bonuses, and promotions for is what employees conclude the company “really” wants. The employee looks at how he/she is doing in company payoffs, and they look at who else in the company is getting payoffs (bonuses, promotions, etc.) They then draw conclusions about what the company must really want based on “who is getting what.”

The problem occurs when there is an apparent disconnect between what the employee is told the company wants in the way of performance and what the employee sees the company handing out the rewards for. For example, a company says to its manager that a “participative” style is what the company wants, and at the same time continues to fast-track and promote a couple of managers who are notorious for being totally non-participative.

In Contractor Management, we would not think of writing one metric into the contract and trying to evaluate and pay based on some other metric of performance. In fact, in the Contractor case, such behavior on the part of the company would probably elicit a lawsuit from the contractor!

The solution is for the company to re-examine the operation of its Performance Management System to ensure that the payoffs given to employees are uniformly and truly based on performance against a mutually understood Statement of Work. The integrity of the system is important: one glaring exception will be enough to weaken the Performance Management System for many of the company’s employees.

The Undisciplined System Problem

The problem is that not all Performance Management Systems are really “systems” – many companies have only a loosely-connected (at best) set of actions they may (or may not) take to guide employee performance on a routine basis.

In Contractor Management, the company would not insist that some work under a contract while others are allowed to just start doing stuff. It would not allow contract completions to go by without performance evaluations and final payments. In many organizations, however, managers are allowed to use bits and pieces of the Performance Management System (or sometimes, to use no parts of it at all). Such hap-hazard use produces uneven and misaligned performance across the organization.

For a Performance Management System to be effective, all seven of the steps outlined above must be regularly performed on a timetable, and religiously applied by every manager to every employee, every time. Performance Management for contractors or employees must be

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practiced consistently by dedicated managers using a formal process that has few, if any, exceptions. In addition, employing managers must be evaluated and held accountable for the consistent, correct and effective use of the organization's Performance Management Systems.

Call to Action

If an organization decides it needs to do some work on improving personnel performance, the steps to take might include these old familiar ones:

- **Step one** for most organizations that want to work on Performance Management is to find people who are accomplished in the discipline. A substantial body of knowledge already exists about the principles and approaches to improving Performance Management Systems. Accessing this body of knowledge upfront might save the company a great deal of time and effort later on.
- **Step two** for most organizations is to assess their present position with respect to Performance Management best practices, both from a Contractor and Employee point of view. Where is the organization with regard to the “use of systematic methods to manage performance – for the right results, in the right place, at the right cost, and at the right time?”
- **Step three** is to plan an approach for implementing the changes in Performance Management that will serve the organization well over the coming years. The approach should be constructed around the answers to questions like the following:
 - How does Performance Management need to be defined for our organization?
 - What parts of Performance Management need to be improved?
 - The individual parts of the system (like goal setting and/or performance appraisal)?
 - The way the parts work together to make an integrated system?
 - The skill of the managers using the system?
 - Individual accountability of managers who are involved in performance management?
- **Step four** is to design/update the system. This includes documentation of work flow processes, policies, guidelines, forms/templates, and anything else needed to communicate how the system is intended to work and to facilitate using it.
- **Step five** is actually to implement the new Performance Management system. This includes mandating its use, publishing the documentation, providing training, monitoring for compliance and coaching the managers until they become proficient.

Today's business organizations have mastered many important disciplines for successfully running their business. In many companies, however, systematic and effective Performance Management is not in place either because they still don't think about Performance Management as a process to be managed, or they don't have the discipline to honor the process consistently. Failure to manage Employee Performance with precision and discipline can keep otherwise winning organizations away from the Winners Circle.

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About Endeavor

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