



Performance Management - “Take It From The Top”

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Pick up any business publication and chances are you will see an article purported to tell you everything you need to know (and then some) on this thing called “performance management.” The problem is that performance management is used to describe a myriad of different activities and processes, from goal setting schemes to employee evaluation plans to merit pay systems to integrated software systems and on and on. The purpose of this article is to explain in clear terms what performance management is (and isn’t).

Let’s start with what performance management (henceforth referred to as PM) isn’t. First and foremost, it isn’t the province and responsibility of the Human Resources department. Sure, HR has a role to play, but arguably that it is not much larger than any other function in an organization (more on that later). What it is begins higher in the organization, at the CEO and even Board level (i.e., “take it from the top”). PM begins at the highest levels because it is the single most important lever that any organization has in its arsenal to achieve its objectives. That’s right- the single most important lever.

PM is the most important lever because, when utilized correctly it leverages the only asset that an organization has that is capable of quantum increases in capability and productivity- it’s people or human capital. Show me a plant, building, piece of equipment, or any other capital that has the same potential for explosive growth as the human type and I will be first in line to invest in it. Unfortunately, many organizations never realize

this growth because they misunderstand how to capture and exploit it through PM.

PM starts at the highest levels of an organization because, when constructed correctly, it begins with the end in mind- that is with what the organization is trying to achieve (its *raison d’etre*, if you will). Performance can only be “managed” against an expectation. In the case of an organization, performance is managed and measured against expectations that typically take the form of annual operating plans and targets. These are the province of the CEO and the executive team.

So PM has at its roots and as its target, the operating objectives of the company. These objectives usually outgrow the strategic vision or longer term aspirations of the company. The strategic vision doesn’t (or shouldn’t, anyway) change frequently and usually addressed the question of “who the company wants to be” vis-à-vis markets, customers and competitors. The strategic vision may also include a reference to the values of the organization. These describe the inviolable principles that govern how the organization operates and are typically centered on integrity and ethics.

Since PM begins with the operating objectives (the end) which are developed by the CEO and the executive team, the challenge becomes sharing them in a relevant and actionable way with all of the other employees- the people that every organization relies

upon to actually do the work. As you can see, the first key element of PM isn't a new and sexy management tool or fad, and it doesn't require new servers, employees, or a "black belt." But what it does take is focused and disciplined communication.

As a matter of fact, if your company is not adept at communicating the annual operating objectives and targets to your employees, save yourself the expense of investments in whiz-bang integrated computer systems (there are plenty of them out there and they are in vogue at the moment).

Let's review what we have learned so far:

- PM is the single most important lever that an organization has in its arsenal
- It has at its core, the annual operating objectives, and is therefore "owned" by the CEO and the executive team (not HR)

But to capture the potential quantum increase in capability of the human capital (the people who actually do the work) requires focused and disciplined communication.

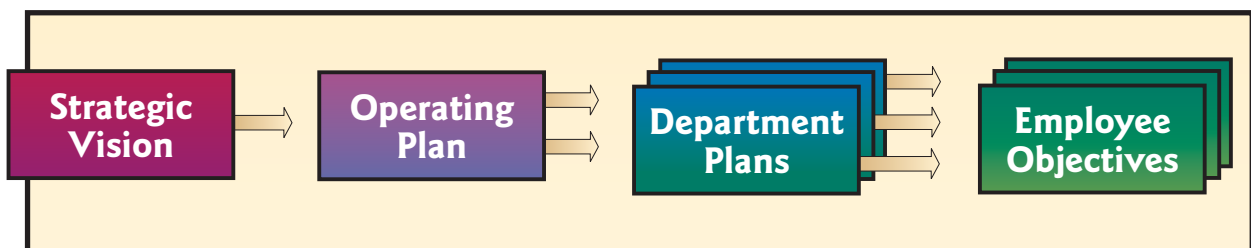
So how do you ensure that this communication happens in a way that all employees understand the operating objectives and their specific role in achieving them? The answer is both extremely basic, yet entirely difficult for many organizations. The secret lies in setting linked and aligned objectives for the employees in the organization. The following diagram shows the linkage from the strategic vision to the employees:

The difficulty in affecting this alignment does not lie in any complexity, but rather in the discipline and involvement required by every manager in the organization. The CEO and the executive team are responsible for the first two steps in the process, but every manager and employee must get into the act thereafter. But communication pitfalls await at every turn.

All too often, the CEO and the executive team assume that the employees are more familiar with the operating plans and targets than they actually are. This outgrows the fact that the senior team members talk to each other about these things all the time, so they mistakenly assume that employees do as well. This is the point where the CEO must drive the success of PM, by ensuring that a planned and scheduled communication strategy is in place to share the operating objectives with employees.

Every other manager in the organization must then get involved for PM to work. They are responsible for translating the operating plans into department plans and individual employee objectives. The CEO and the executive team have a key role to play at this point as well. They need to make PM an important priority to all of the other managers. If not, "game over." Why? Because someone (more likely many "someones") will not do what needs to be done to achieve the operating objectives. It's as simple, and tragic as that.

The importance of this linkage process can not be overstressed, and is the reason that PM is not really the province of the HR department. HR plays no bigger



role (and often a lesser role) than any other department when it comes to setting and communicating operating objectives and targets. So if you are relying on your HR group to drive PM in your company you are making a strategic mistake.

HR does come into play in a key role, but much further downstream, usually in the role of auditor and gatekeeper of the performance appraisal process. But be clear that performance appraisal is not performance management, but rather a downstream component of PM. Performance appraisal is an important process, to be sure, and absolutely should have at its core the linked employee objectives established in the beginning of the PM process. Employees should be evaluated and appraised on their success in delivering specific and measurable objectives that are linked to the operating objectives.

PM encompasses performance appraisal and also the “pay for performance” compensation schemes that so many organizations covet. While a thorough review of these pay schemes will be reviewed in an upcoming article, suffice it to say that a foundation of specific and measurable individual employee objectives, tied to an organization’s annual operating plan provides a solid starting point for all types of performance-based pay.

So remember, PM starts “at the end” (with the operating objectives) and “from the top” (with the CEO and the executive team) and requires planned, strategic and disciplined communication to unlock the quantum potential of the highest leverage asset in the organization- its human capital.