

Performance Management

It's Time for a Reality Check

By Nick Gasaway, CCP, CBP, GRP

It's time for a Reality Check! A reality check for performance management programs, which has become a bit of oxy-moron statement these days. Think about it, when a company has a bad financial year do the performance ratings of those employees go down? Year after year most company's performance rating distributions do not fluctuate much regardless of the company's performance.

A good question to ask is, would it get you new business if you told your clients that 80% of your employees are rated "4"? Some clients would possibly laugh and even ask for a rebate on the next order if there is one. After all, most customers know the caliber of your employees better than you do. The real question is where is the Return on Investment (ROI) for all the time and money spent on elaborate performance management programs?



It's time for a Reality Check! Many companies claim, "Our employees are our GREATEST ASSET!" "We only hire the best; they have to be exceptional to work here". Have you ever heard a CEO say "Go out and hire as many average employees as you can." Not likely! Companies spend significant amounts of time and money to recruit the top talent in the market place. It is critical to find qualified candidates that fit within the culture of the company. Therefore, if people are our greatest asset, why do we bring them on board, squeeze them into a forced distribution matrix, and label them **AVERAGE**? Companies rationalize the action because after all, you may have been exceptional in your last job but you have not proved that in this one.

It's time for a Reality Check! Today, many performance management programs are flawed for a number of reasons:

Inconsistency

- Expectations - Even with detailed guidelines, documentation and supervisory training can get all the managers to conduct performance reviews consistently. Management perspectives range from "No one is perfect, there is always room for improvement", "Doing everything on the job description is expected." Compare to "If I hired them they have to be exceptional, I only hire the best, there are no average employees in my department."
- Virtual Workers – "My boss is overseas and never sees the work I do". Telecommuting has placed new demands on performance management programs.
- Terminations/Transfers – The manager leaves the company or gets promoted or transferred to another part of the company. All too often there is zero or very little for the new manager to conduct a performance review. As a result, many managers play the middle ground and assign an AVERAGE rating.

Management Training

All too often companies take a super performer and make them a supervisor with little or no training. With performance reviews happening only once a year it is not surprising that over 70% of organizations say their managers lack the courage to have difficult performance management discussions¹.

Corporate Leadership



There is a growing gap of mistrust that employees have with executive management. Long tenured employees have a concern about their executive's ability to effectively and sometimes ethically make decisions for the company. Enron is the leading example of mismanagement and some are pointing fingers at the home lending organizations for huge financial and job losses. Job security, which is an important goal for many employees, is becoming increasingly harder to obtain.

Goals and Objectives

Goals established in December are often obsolete by the end of the first quarter. This does not mean the goal setting process was flawed or wrong, it means we work in a very fluid, constantly changing environment. Managers are getting promoted, transferred, leave the company consolidated with other departments not to mention possible divestitures or acquisitions. The work load of today's managers has increased significantly; the old "Do more with less" mentality. Many managers recognize the need to keep up with the goal setting, but simply do not have the time to do it. This only adds to the stress level at review time because employees worry they have been working on the wrong goals and the manager worries about performance discussion on goals that were never established.

Insufficient Funding



This is the biggest issue of all, certainly the biggest complaint of managers today. Managers want to reward top performance but with average merit pools come average increases. Most of today's merit pools hardly cover the basic needs and offer only minor motivational value. For example, an employee at \$40,000 gets the average increase of 3.5%, which equates to a \$1,400 increase. On a bi-weekly pay period, this is \$53.85. By the time taxes are taken out and the increase cost of benefits there is not much to get excited about. To hedge this process some managers have found creative ways of generating additional funds. This includes transferring an employee after the merit funds have been distributed knowing that HR probably will not transfer the funds or including open requisitions in the budgeting process and then not filling the position.

¹ Sibson Consulting, "Four Key Steps to Performance Management" 2/08

This is an effective shell game because it makes the manager look good from a budget prospective and generates extra dollars for existing staff. Departments with large populations can actually identify low performers and shift those funds to top performers. The real grind comes with the manager of a small department who cannot afford to pass on anyone because the work still has to get done. The end result is the top performer gets 3.5% and the average performer gets 3.1%.

There is a bigger issue many companies do not address when determining next year's merit budget, by not having a current market analysis. The budgeting process in companies today starts with the Finance department, which determines what the company can afford to give in raises. This is often different from what it will take to keep the company competitive in the market place. Not to be too hard on the Finance department since it is their job to keep costs down. They may inquire about average merit budgets from other companies or industry trends from associations like *World at Work*, but this could give a false sense of security. If their employees are low in relation to the market to begin with an average merit pool will make little or no difference and may even compound the issue. A true market study would provide a detailed cost analysis by job and identify those key positions that need extra funds to stay competitive. These additional funds need to be added to the budget, but often are not.

There are some managers that believe when a new employee joins the company they should start out low or at the bottom of the salary range and work their way up. The problem with this approach is when that employee turns out to be a top performer there are never enough funds to recognize their contribution. Merit budgets do not typically include extra dollars just to fix market adjustments. Unfortunately, Human Resource is brought in for damage control because turnover rates are higher than expected. Top performing companies are those who say, "Our employees are our Greatest Asset" and actually know what the market value is on those assets, treating them accordingly.

What's Next?

Performance Management; its time for a Reality Check! There is hope out there and performance management is not a lost cause. If you want an example of good performance management just look at professional sports. It is a very competitive market, good players are in high demand and team owners are willing to pay huge salaries to get key players that might get them to the Super Bowl or World Series. Team owners have also learned to pay for performance. For example;

- **Football** (NFL) - a player's salary goes up sharply if he gets a predetermined number of sacks, number of tackles or a certain number of touch downs. Did they make it the Pro Bowl? If you are not out on the field making plays you get a base rate.
- **Baseball** (MLB) - number of starts, number of wins, batting average, did they make it to the All Star game?
- **Tennis/Golf** – the number of tournament wins.
- **Consulting** – number of billable hours

In all of these examples, pay is linked to a specific outcome. The owner/company is willing to pay for those outcomes even if the ultimate goal of being #1 is not reached. The Dallas Cowboys had a record of 13 – 3, won their Division title and sent 13 players to the Pro Bowl, but did not win the super bowl. The Cowboys owner, Jerry Jones paid out big checks because he knows that if he has enough key players who perform well, they can win the super bowl.



Every member of the Dallas Cowboys knows what the #1 goal for the team is – Win the Super Bowl! Not make it to the Super Bowl, win it. There are certain milestones along the way, like make it to the playoffs, win the division, etc. Each player has a personal training program and specific goals to be met. Most performance management programs start with a clear set of corporate goals at the executive level and try to filter them down to lower levels in the organization. This is an excellent practice and certainly is critical for the company to establish its goals. The problem comes in identifying the specific outcomes at the lower levels. Is the company willing to pay for those outcomes at the lower levels? Although there are number of factors that

contribute to success, two that are at the top of the list:

- 1) How are plans executed and 2) the amount of training done to get the player (employee) ready to execute the plan? If you don't think execution is important just ask the New England Patriots who went though the regular season undefeated, 16 – 0, but did not execute in the final game, they lost the Super Bowl.

Executives know how to impact Earnings Per Share (EPS), Sales or EBITDA, but for most of corporate America, the breakdown occurs at the lower levels in the organization. Sure, the employee is told we must increase revenues 20% over last year, but they are uncertain how their specific job will help accomplish the task. Here are three key take-a-ways.

1. Top performing companies are able to identify specific goals that the company is willing to pay for at all levels.
2. Top performing companies provide the necessary training to employees so they can reach those goals. This does not mean training on how to set goals, but the employee development training (technical, managerial, behavioral) necessary to accomplish the goals.
3. Trying to summarize a whole year of work into 1 – 5 rating system is not very effective. That numeric scale does not indicate the value of the employee brings to the company. Performance management programs need to identify those attributes that add value to the company regardless of position.

How do companies assess the value employees brings to the table? Here are some factors to consider:

1. **Business Impact** – In every company, there are a small number of employees that if they left there would be a big adverse impact in the organization. This impact maybe a loss in customers or maybe a loss of employees following the key player to the new company. Then again, some employees if they left the company the remaining staff would celebrate.
2. **Knowledge** – This could be technical knowledge or historical knowledge about the products and services offered by the company.
3. **Promotability** – How soon is the employee ready to move up to the next level? This would include employees being promoted from an intermediate level to a senior level or from a non-manager to a manager level. Are they so critical that a new position needs to be created immediately or are they on a learning curve that may take 3-5 years? Creating this list will be

instrumental to developing a good succession plan. This could also impact salary planning dollars for promotions and professional training budgets

4. **Risk** – How willing are employees to take on difficult tasks? If employees are afraid of failure, at some point they will be limited to how far up the corporate ladder they may go. Successful companies are not afraid to take risks and they need employees who are willing to take risks. Assessing this factor is important.
5. **Innovation** – If your company specializes in new marketing designs or perhaps a software company trying to develop the next generation program you may value this factor.

Other possible assessment factors could include:

- Leadership
- Problem solving
- Planning/Organizational skills
- Communication skills

Being able to assess these factors is a better indication of the value an employee brings to the company. Here are a few questions that need to be asked when evaluating a performance management program:

1. How intuitive is the program?
2. How flexible is the program to make changes?
3. How much management training is required to implement the program?
4. How much time will it take for an employee/manager to complete one assessment?
5. What kind of technology is used to operate the program? Web based? Excel? Manual paper?
6. Does this program link the evaluation score to the market value of the job?
7. Is there an organizational roll-up that allows total company overview?
8. What other systems will this program need to interface with, Payroll? HRIS? Salary Administration?

Recommended approach

HR Tech Net recommends that companies use a three step process that incorporates market analysis, performance management and performance incentives to control costs and drive performance.

Step 1. Determine the value of the job in the market place.

This can be done by participating in one or more salary surveys on an annual basis. Conducting a market analysis allows HR to become a business partner in helping managers hire employees at competitive levels and help retain key management talent. By monitoring the market place, HR can help control labor costs and avoid big surprises in market adjustments.

Step 2. Determine the value of the employee doing the job in the market place.

Find a flexible, web based performance management program that allows you to identify the key assessment factors like Business Impact, Knowledge and Risk that best fits the culture of the company. It is important to have the performance value scores linked to the market value of the job. This link is critical to determining where to spend those limited merit dollars.

Step 3. Determine the best performance incentive plans to motivate the employee doing the job.

Develop value creation incentive plans that drive performance and profitability. Incentive plans are the real motivators and unlike merit budgets, they have an upside potential that generates personal satisfaction and financial rewards based on performance.

HR Tech Net, LLC has developed web based software programs that systematically addresses all three of these steps. Listed below are some of the highlights of this approach.

Step 1

Determine the value of the job in the market place

Sal-U-Comp©

Market Analysis Features

- Uses market analysis to determine the value of the job based on current salary survey data
- Sal-U-Comp compiles multiple salary surveys into one consolidated market value
- Ages survey data to a common future date
- Matches jobs to the consolidated market data
- Models salary structures and provides instant cost analysis on all matched jobs
- Identifies salary concerns for immediate action
- Produces management reports include all matched jobs by:
 - Job Title
 - Proposed Salary Grade
 - High-Low Annual Salary
 - Employees in Alphabetical order

Step 2

Determine the value of the employee doing the job in the market place

Value Plus Assessor©

Performance Management Features

- Flexible design allows you to identify factors that best measure the performance of your employees
- Web based processing allows managers to spend more time with employees and customers instead of filling out forms
- Easy point and click application
- Immediate online cost modeling analysis
- Process annual goals and training development needs by employee
- Process merit increase, market adjustments, Lump Sum increases based on the employees relationship to the market
- Online status reports can be downloaded to Excel
- Electronic approval for management and Human Resources

Step 3

Determine the best performance incentive plans to motivate the employee doing the job

Sal-U-Comp©

Annual Incentive Plan Features

- Unlimited incentive plan designs
- Modeling permits immediate review of all plan payouts at Min, Target and Max
- Incentive plans can be designed by job level, salary grade, reporting relationship
- Reports can be exported to Excel, Word, or PDF formats
- Incentive Plan documents can be generated for individual participants within an incentive plan
- Tailor administrative guidelines to meet your company needs

Nick Gasaway (CCP, CBP, GRP) is the principal executive of HR Tech Net, LLC. He brings over 20 years of unsurpassed professional integrity to the market. He has worked for a variety of organizations from start up companies to Fortune 100 companies including Alcatel Telecom, Nortel Networks, 7-Eleven, General Dynamics, La Quinta Inns and Suites and Boeing Aircraft.

Nick Gasaway has been a member of World at Work since 1989, has certifications in Compensation, Benefits, and was the first to complete the international certification Global Remuneration. He has a Masters Degree from Southern Illinois University and two Bachelor Degrees from Southeast Missouri State University.

For addition information or a demo of the Sal-U-Comp© and Value Plus Assessor© software contact:

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