

# AVOIDANCE

Australian managers dislike performance management so much that poor performance is often left to fester. *Human Capital* provides some tips on how to do it better



# TACTICS

In *Human Capital* issue 7.7, Ben Deverson, an experienced HR practitioner and now COO of BDO Kendalls, commented on the significant capability gap that exists for many people managers. He noted that organisations, and especially HR teams, need to do more to ensure that authentic performance discussions are taking place in the workplace.

“Performance reviews are tough to do, especially if you have to manage underperformance. However, it’s a gap we need to continue to fill as part of our leadership and succession planning,” he said.

“I often find people will not address the issue. Annual review time will come around, and it’s swept under the carpet. The person is given a solid review, and then we continue to be concerned about their performance when it could have been addressed. This means firstly the person does not know the critical issue they should be addressing; and secondly, there are probably effective and strong performers around that person who are picking up the slack.”

It sounds so simple doesn’t it? Meaningful conversations, open dialogue between employee and manager (and possibly others), detailed feedback and clear objectives. Yet when was the last time you heard of someone actually looking forward to their performance appraisal?

## Don’t let it slip

Back tracking slightly, is it possible – given the difficult business conditions at present – that performance management has taken a back seat? Or has the opposite happened (ie, the push for more productivity has resulted in a greater focus on individual performance)? David Fox, principal, The HR Practise, believes the latter is true.

“I think it’s actually become more focused, particularly because businesses are trying to get more productivity out of existing staff. In our business we’ve implemented online goal management and we’re using that to identify what people are working on, and to ensure they are working on the right things.

It highlights where there are any gaps in resources. Other businesses are looking for efficiencies, so they don’t have to cut the headcount but can still save time and get other pieces of work done.”

There are statistics to prove that Australia’s productivity levels are dropping. Research conducted by PeopleStreme indicates that over the last three years sales per employee, and earnings before tax and interest per employee have declined.

“Some of this is being recognised in corporate Australia today – they recognise they aren’t getting the productivity expected, so they’re looking closely at performance management and aligning people to business goals,” says Lyle Potgieter, CEO of PeopleStreme.

Earlier this year PeopleStreme teamed up with RMIT and La Trobe University to gauge perceptions of what performance measurement can and can’t do for an organisation.

The conclusion was that most people don’t have the skills to undertake performance management effectively, and there are also divergent views about what’s expected from it (see table on page 30).

“Executives believe it will get results, but when it gets down to mid-level managers they don’t have the skills and they don’t know how performance management is linked to customer service or sales effort or anything like that. People write a lousy objective and they expect a great outcome, and the employee interprets that objective in 15 different ways,” says Potgieter.

“If you do it right you can change behaviour. But if you do it wrong, nobody changes and it’s a waste of time,” he adds.



Lyle Potgieter

## How effectively is your performance management system linked to the following outcomes?

|                            | EXECUTIVE/<br>SENIOR<br>MANAGEMENT(%) | MIDDLE<br>MANAGEMENT<br>(%) | LINE<br>MANAGEMENT/<br>SUPERVISORY<br>(%) | HRM<br>PROFESSIONAL<br>(%) |
|----------------------------|---------------------------------------|-----------------------------|---|----------------------------|
| Quality of goods & service | 61                                    | 12                          | 7   | 20                         |
| Innovative capacity        | 70                                    | 7                           | 8   | 15                         |
| Cost                       | 54                                    | 15                          | 10  | 21                         |
| Market share               | 54                                    | 12                          | 13  | 21                         |
| ROI                        | 52                                    | 12                          | 15  | 21                         |
| Profitability              | 53                                    | 13                          | 13  | 21                         |
| Efficiency                 | 59                                    | 11                          | 9   | 21                         |
| Quality of workforce       | 62                                    | 10                          | 8   | 20                         |

2007/2008 study by PMIA, RMIT and La Trobe University

### Organisational strategy

Goal/objective setting is the most important element of performance management, yet this is an area many managers struggle with.

Rebecca Cross, talent & organisation consulting leader at Hewitt, believes goals should cascade from the organisational strategy. “Even with the current environment, if we’ve accepted we’re not going to get the sales we need, how are we going to ensure we’re best positioned when the economy turns around, and what are the goals associated with that? Goals should be recalibrated to reflect reality. For example, if sales people are struggling to meet targets there’s absolutely no point leaving them at unachievable levels,” she says.

Cross adds that it’s surprising how many organisations have a strategy that is not aligned with the goals they give to their employees. “The disconnect is there to begin with, and because the performance process in many organisations is a once- or twice-a-year activity, it becomes a compliance activity rather than something meaningful. Also, because the organisational strategy may change, particularly given the current circumstances, none of the goals are being recalibrated to fit what the organisation is trying to do.”

The end result? Disconnected employees doing their own thing because they don’t know how they fit in with ‘the bigger picture’. Hewitt research confirms that employee engagement and performance increases when people are connected to the vision of the organisation.

### Step by step

But with so many organisations tightening their belts, or even in survival mode, long-term planning can often fall by the wayside. How does this affect an individual’s objectives and goals, and are long-term goals even important? Potgieter suggests that most people do not necessarily deal well with long-term goals. “If I say to someone, ‘our five-year plan is X’, they may say ‘that’s great but how does it affect me tomorrow morning’? Organisations should still do their long-term planning, but the people should be tied to what they can do effectively in the short-term. Otherwise the five-year plan sounds good but how do you create concrete steps towards it?” he says.

Indeed, employee goals should be aligned to overarching organisational goals, but this does not mean personal motivations should be discarded. Meaningful conversations with employees will reveal what that person’s skills and attributes are, and where their motivations lie.

One of the challenges Cross and her team at Hewitt have faced in recent years has been related to the talent shortage in certain industries. In their efforts to attract the best candidates, some organisations have attempted to be everything to everyone. That creates challenges because not all employee individual goals can be met.

“It’s part of the employment deal, the give and the get,” says Cross. “It needs to be managed from the moment the person joins the organisation. Make it clear what they should expect and what the company should receive in return. For example, if the employee wants the opportunity to work abroad – how does that

sit with organisational strategy? Can the two parties meet in the middle?”

## SMART goals

Goals should be SMART – Specific, Measurable, Achievable, Realistic and Time-framed. Given the tough economic environment, Potgieter believes now is the time to be calibrating goals. “The start of the financial year should be about the strategy – and the strategy will differ from last year or previous years. Last year the target may have been \$150m in earnings before interest and tax, but now people are being more realistic. They’ve told the market they will be doing \$100m and the share market has accepted it, so therefore the goals should be recalibrated to meet that. Set realistic expectations; don’t live in a dreamland,” he says.

Success can mean different things to different people, so it’s also important to be clear about expectations. “We advocate setting the goals and calibrating the objectives so that everyone is very clear from the beginning about what ‘outstanding’ means, what meets expectations, and what doesn’t meet expectations. The calibration is as important as setting the goals. Increasing sales by 30% may sound fine but what does outstanding look like? 40% or 31%? We want to take that ambiguity out,” Potgieter says.

Goals should also have some inbuilt ‘stretch’ in them. “A trend we’re seeing in a lot of organisations is rewarding over achievement of moderate goals rather than rewarding achievement of ‘stretched’ goals. That indicates we’re rewarding caution regarding goal setting and not having the courage to stretch people,” says Cross.

## Balanced objectives

An objective may be to raise sales by 30%. What stops someone throwing ethics out the window to achieve that objective? In the interests of assessing not just what work is done but also how it is done, many organisations use some form of scorecard approach to performance. Potgieter finds this approach is effective because it can be balanced to take into account values, behaviours and the organisation’s business objectives. “It’s a balance between how I behave and how I execute. It might be called something other than balanced scorecard – but the fundamentals will remain the same,” he says.

The buzz of several years ago – ‘360 degree feedback’ – is also still being used, but in a slightly different way. Now peers, subordinates and managers will be canvassed to assess the employee’s skills gaps for further development. “I’ll ask my colleagues how I went on communication or teamwork or some other capability, and that determines a gap which can lead to a development outcome,” explains Potgieter.

Part of this involves self-assessment, which serves to benefit both the employee and the manager. The employee benefits from the self-reflection of their own achievements, and it assists the manager in their conversation with the employee. “If you’ve got someone coming in who’s a poor performer and knows they’ve had issues, versus a poor performer who thinks they’re great, obviously there’s a different approach you’d take for that conversation,” says Cross.

## Appraisals

Once goals are set and success defined, best practice is not to ‘set and forget’, or for the manager and employee to meet once a year. Instead, a one-on-one meeting with the manager should occur every month. Potgieter warns that these should be succinct 10 minute meetings, “not *War and Peace*”.

“There are still many organisations that do a once-a-year appraisal. We tell them to throw those systems in the bin. They are a waste of time. The higher frequency meetings will be where you’ll change behaviour,” he adds.

Fox, who advocates online performance management, says that once constant dialogue is established between employer and employee, the actual performance review should only take place twice a year. “It’s time consuming and if you’re in a business with a call centre with hundreds of employees, for example, it becomes difficult for managers to do it more than twice a year. At the same time, goals need to be continuously updated. If you embed it in the business in tools that employees use and that managers use, there shouldn’t be a need to formalise it,” he says.

## Poor performance

With research from Kaplan and Norton indicating that just 7% of people understand their organisation’s strategy\*, the environment is ripe for disengagement and poor performance.

Poor performers will challenge any manager but there is a specific process to follow – known as strategy mapping – that re-aligns employees with corporate goals and gets them re-engaged on their piece of the strategy. Potgieter uses an example: “If I’m sitting down with a graphic designer I should be able to illustrate to them how their work contributes to the department, and then how the work of the department contributes to the organisation, and thereby I can help that person understand their work is important. Strategy mapping links people back to the organisation but it’s important to do it right – otherwise you get people who are disengaged and they become an island of effort.”

Fox notes that the performance review becomes an issue where formal steps need to be taken to improve performance. “If you identify though a performance review that there is a clear performance issue, there should be a development plan in place for the individual that clearly marks outcomes and time frames involved. If it doesn’t improve, it needs to move onto a formal disciplinary approach. The key is to ensure it’s documented, that you’ve given them a chance to improve and they’ve been supported and are warned that continued lack of performance could lead to dismissal,” he says.

Poor performance needs to be nipped in the bud as quickly



as possible – yet another reason why the once- or twice-a-year appraisal is not sufficient. Hewitt developed a scenario to illustrate this point to clients. The scenario takes an employee in a call centre who has a slight performance issue: they are not explaining a product in a way that allows them to convert a \$25-a-month customer to a \$55-a-month customer. When the numbers are added up per call over the time, it turns out the manager has delayed in giving the employee feedback. So it's clear how deep the business impact of poor performance can be.

“For many organisations it's not as easy to measure that tangibly, but the longer you delay on performance feedback the greater the impact will be. Plus, it's terrible as an employee hearing about something you've been doing wrong at the end of the year when you could have changed it easily six months ago,” says Cross.

“It comes back to manager capability to be able to have the tough conversation. If you're not engaged, if you're not motivated, if you're not connected to the business, why are you still here?” she adds.

### Aiming for high performance

Many organisations claim to be ‘high performance’ but what does this term actually mean? Hewitt believes building high performance depends on four key factors: accountability, trust, reward and opportunity.

- Accountability is about setting high achievement goals, providing performance coaching and feedback.
- The rewards piece is about differentiating rewards via performance, and making performance-based reward decisions. It's also about delivering ratings and reviews that send the right messages: if you've got underperformers you want them to leave the performance conversation feeling motivated to improve; for solid performers you'll want them to feel successful; for high performers you'll want them to feel special. “In many

organisations they have a five-scale rating and the middle score is ‘meets expectations’. That means if you get that middle score you feel average, but actually you've done everything you were asked to do. If you're a mountaineer, the goal is to get to the top of the mountain, and if you get there, how do you exceed that goal? Goal setting should be like that. If you meet expectations, it should be a high achievement,” says Cross.

- The trust piece is ensuring the process is transparent, and that the organisation is communicating openly with employees.
- The opportunity piece is building development into every job – directing people towards skills that are going to be critical to future strategy and actively seeking opportunities for people.

### Two-way street

More than ever, it's a two-way street. Employees should be able to drive their performance as much as managers. “Current practice is about cascading from top down, but I think the future will be about bottom-up goal setting as well as top-down,” says Fox. “For HR, it's a good time for them to prove how they can link the business plan to the people and the HR plan.”

The key to good performance management lies in its execution. Cross notes that an organisation can have the fanciest process and the best systems to support it, but the execution is what matters. “Managers need to have the capability to set goals that are meaningful, to provide feedback that is meaningful, to have the tough conversations, to have the skills to really drive that process regardless of the systems,” she says. **HC**

*\*Robert S. Kaplan and David P. Norton, ‘The Strategy Focused Organisation’, Harvard Business School Press, 2001*

### Further information

*Read Human Capital's legal column by Matthews Folbigg on page 6 for more information on the legal ramifications of poor performance management.*

## Symptoms of a lack of alignment

Lyle Potgieter, CEO, PeopleStreme, outlines the danger signs:

- many meetings, no outcome – managers don't know what to ‘back’ and what not to
- lots of organisational noise but nothing gets done, with things move very slowly
- employees and managers not engaged – staff turnover increases, low employee engagement scores
- overall organisational performance declines – initiatives are slow, projects are late, innovation dies, staff become cynical

Why there is little alignment:

- appraisal – waste of time but still prevalent
- managers set objectives in isolation – do not tie or align to the plan
- managers set low quality objectives – eg, ‘improve morale’, or ‘get Dept A working with Dept B’. No objective writing methodology
- optional performance management – partial compliance, lack of follow through, no flow-down from the top
- no consequences or outcomes attached to performance processes

## Case study: Bupa Australia

**Human Capital** talks to Penny Lovett, director of HR at Bupa Australia, about her organisation's performance management practices

**Human Capital:** Why is performance management important?

**Penny Lovett:** A strategically designed performance management program drives business outcomes and underpins future success.

Our core program has been designed to motivate and reward our people, while ensuring their effort and direction are aligned functionally as well as within the broader organisation.

Or put more simply, it guarantees everyone is 'rowing in the same direction'.

One of the most important aspects of performance management is that it embeds organisational goals and cascades them throughout the business.

And while this may seem simplistic, it's not. For any business to continue to prosper, regardless of its size, it's essential both business and individual goals are aligned.

Therefore, a good performance management system will channel effort appropriately and reward people in accordance with their delivery.

**HC:** How does Bupa achieve this?

**PL:** We achieve this by directly linking all aspects of employee rewards – including base salary increases, bonuses and promotion – to the achievement of specific, pre-determined goals and demonstration of the right behaviours.

Being part of a high performance culture, our strategy in this area resonates with our people. And importantly, it provides them with clarity about their roles and responsibilities – the value of which cannot be understated, given ambiguity can lead to demotivation.

Our performance management system also incorporates a structured approach to developing the skills and performance of our people, which delivers positive business outcomes.

**HC:** What makes a good performance management system?

**PL:** In order to truly harness your workforce, you need to channel their



energy and focus. Therefore, an organisation's ability to set reasonable and achievable goals will inevitably determine success or failure of any performance management system.

We achieve this by setting overarching business goals and objectives that incorporate 'stretch' potential, through differing rewards for the achievement of targets at three different levels.

Equally importantly, we incorporate 'team goals' to facilitative people working together to achieve functional goals. Frequent individual and team discussions also ensure there is buy-in to these goals, which are the driving force of their output and behaviour.

The importance of this approach cannot be overstated, given the Achilles heel of many performance management systems is that they are underpinned by ambiguous, unachievable or unsupported goals.

At Bupa, we also agree all goals at the start of each financial year, and design them with enough 'flex' so they can be updated as the year progresses to accommodate any economic or business changes.

Regular formal and informal discussions with employees are also pivotal as they enable the business to help manage, and provide feedback, on how people are travelling. We achieve this via a number of mechanisms including monthly one-on-ones, annual self-assessment and organisational survey feedback.

Importantly, this approach underpins a forward-looking culture that engages and informs staff, while providing realistic targets for them to strive towards.

**HC:** How do you measure success?

**PL:** Measuring success is the easy part of the equation – it all comes back to the original objectives.

We achieve this by establishing 'SMART' objectives early in the performance period and thoroughly communicating them to all stakeholders.

**HC:** What performance management system do you use? Why?

**PL:** Bupa uses the balanced scorecard approach, which is an appraisal system that incorporates SMART goals and links individual behaviours to the organisational vision and values. Behavioural measures are also incorporated to measure the 'how' in conjunction with the 'what'.

Living the values, or 'walking the walk', leads to more handsome rewards via the application of a multiplier – positive or negative – onto actual achievements.

And while all of our people have organisational goals built into their scorecards, the weighting of these goals increase as you progress through the hierarchy, reflecting the reality that our managers have direct ownership of driving our key organisational results.

Importantly, this reduces silo thinking, encourages a high level of cross-functional cooperation, and breeds a high-performance culture focused on organisational success – or ensuring everyone is rowing in the same direction.

**About Bupa Australia**

Bupa Australia is a leading health and care provider, and covers over three million Australians. It operates in every state and territory under the brands MBF, HBA and Mutual Community.