July 2013

Inspiring Leaders

Leaders Everywhere

Cultural Dexterity

Develop Learning Agility

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Arise and Shine Forth

*One determined leader, making her
way alone, might make it through
darkness and opposition. And yet
inspiring leaders support each other
in standing for what is right,
as others come up behind them.*

Performance Measures

We need to challenge six myths.

by David Parmenter

I'VE WORKED WITH performance measures (PMs) for two decades, and seen *scant progress*. PMs should help align daily actions to *critical success factors* (CSFs). Yet often they're a random collection prepared with *little expertise* but at *great expense*.

Challenge Six Myths

We need to challenge six myths:

Myth 1: Most measures lead to better performance. Measures are often cobbled together without knowing the CSFs or understanding a measure's behavioral consequences. Every PM can have a dark side, a negative consequence, an unintended action that leads to inferior performance (sadly, many PMs encourage unintended negative behavior). To make a PM work, you need to anticipate likely human behavior, find the potential dark side, minimize it, and then tweak how the measure is used so that it promotes desired behaviors.

Myth 2. All measures can work successfully in any organization, at any time. To create a culture where measurement will thrive, *seven conditions* are needed: 1. Partner with the staff, unions, and third parties. 2. Transfer power to the front line. 3. Measure and report only what matters. 4. Source *Key Performance Indicators* (KPIs) from the CSFs. 5. Abandon processes that do not deliver. 6. Understand human behavior. 7. Ensure organization-wide understanding of winning KPIs.

Myth 3. All performance measures are KPIs. We tend to use the term *KPIs* to mean all PMs. Thus, measures that are truly *key* to the enterprise are being mixed with flawed measures. *Key* means *key to the organization*, while *Performance* means that the *measure assists in improving performance*. A KPI has *seven characteristics*: 1) it is a nonfinancial measure; 2) it is measured frequently (daily or weekly); 3) it is acted upon by senior managers; 4) all staff understand the measure and what corrective action is required;

5) responsibility for the measure can be tied to a team; 6) it has a big impact on more than one CSF and more than one balanced scorecard perspective; and 7) it encourages appropriate action.

Myth 4. By tying KPIs to pay, you will increase performance. Recognition, *respect*, and *self-realization* are more important drivers of performance. Still, we tend to tie KPIs to pay. This only creates key *political* indicators, which will be manipulated to enhance bonuses. KPIs must not be included in performance-related pay discussions and manipulated to maximize bonuses.

Myth 5. We need to set annual targets. We like to think that we know what *good performance* will look like and can set relevant year-end targets. In reality, as Jack Welch observes, this practice constrains initiative, stifles creativity, and promotes mediocrity. *All forms of annual targets are doomed to fail*—the target will be either too soft or too hard.

Myth 6. You need PMs to drive performance. If you've recruited the right staff, clearly defined what the CSFs are, and created a supportive work environment with great managers and leaders, you will succeed. PMs don't drive performance—they support and enforce the positive environment that already exists. An organization with dysfunctional PMs would function better without them.

Three Action Steps

I suggest you take these three action steps:

1. Short-term abandonment of all PMs may be the radical treatment required. Starting anew enables rebuilding the way PMs are used. If you're working with dysfunctional PMs, negotiate a *three-month moratorium* on PMs. After three months, managers will have an idea of the measures they've missed and ones that should be abandoned. Leaders will be invigorated from closer contact with the operation and better able to revitalize performance.

2. In this three month window, ascertain your CSFs, and then ensure that all measures relate to them.

3. Groom an in-house expert to be the Chief Measurement Officer. This person will vet and pilot all PMs for possible unintended consequences, create a team to approve all measures, and launch a KPI project to move the organization along the "Good to Great" pathway. LE

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ACTION: Abandon broken performance measures.

Performance Appraisals

Is now the time to abandon them?

by Josh Bersin

MORE COMPANIES ARE *radically changing* their performance appraisal process—doing away with performance ratings and annual appraisals. This is a strong and positive trend. Why have *annual reviews*? They're an artifact from top-down companies that *weeded out* the bottom performers every year. By rating people annually, we can have annual talent reviews and decide who gets more money, gets promoted, and is let go.

Coupled with the *performance* rating is the *potential* rating, which tries to capture a person's potential to move up two levels. This approach is based on the philosophy *Since we can't totally trust managers, we'll force them to fit people into these rating scales* (we see *forced distributions* in 20 percent of companies).

This process causes many problems, including these six: 1) Employees need and want *regular feedback* (daily, weekly), so a once-a-year review is not only *too late* but often a *surprise*; 2) managers can't *judge* an entire year of work from an individual, so the annual review is awkward; 3) we usually have many peers and managers, so one person can't adequately rate you without peer input; 4) issues with people who are a poor fit and perform poorly should be addressed *immediately*; 5) people are *inspired* and *motivated* by constructive feedback—and the appraisal process works against this; and 6) the *development* part of an appraisal conversation—what can be done to improve performance and engagement—is often ignored or depreciated.

Of course, many companies won't eliminate annual appraisals, arguing: We need a way to distribute compensation increases; we need a record of low performance when we let someone go; we need to capture performance data in an employee's profile; and we need to ensure managers are doing their jobs.

We should replace the dreaded annual review with these best practices:

• Develop a *feedback-rich* culture and tools (online, formal and informal) that encourage all employees to give each other feedback. Tools from companies like Achievers, Globoforce, and most