HARDER.
BETTER.
FASTER.
STRONGER.

PERFORMANCE MANAGEMENT WITH IMPACT

& undconsorten

OUVERTURE
FROM SYSTEM TO CULTURE

In today's achievement-oriented society, performance management occupies a central role in our quest for constant improvement, to become – as Daft Punk put it – "harder, better, faster, stronger".

In every organization, you will find a mechanism to encourage and improve performance, but these systems are often quite complex and technical. Every fourth manager thinks performance management is bureaucratic and too time-consuming. Only 8% believe that it actually influences individual performance. Critical voices like these show that many managers are currently not using performance management for what it really is: a strategic management tool. As a consequence, performance management systems cannot live up to the high expectations placed on them but instead become a burden to managers and employees alike. It is our goal to explain the gap between these high aspirations and reality and – crucially – help you close it.

Ineffective performance management essentially has three root causes: lack of strategic focus, lack of leadership capabilities and an inadequate management of outcomes (ie incentives).

We often observe that the organization's strategy is not mirrored in performance management systems by using meaningful (!) drivers but instead, overkill with KPIs that have no direct link to performance is created. But that is not enough. In order to bring the system to life, the leadership skills of those in the driver's seat (ie supervisors) are crucial. This is due to the emotional nature of performance management, as it relates to motivation, appreciation, expectations and compensation. This takes us to the third challenge: if you do not properly manage the outcomes of performance, the system will fail in its task to incentivize employees to improve.

Generally, we find that the stronger the leadership skills and the greater the acceptance of the performance management philosophy, the fewer central structures or support you will need. Nevertheless, the essence remains: you need to have all three dimensions sorted to a certain degree in order to lay the foundations for a performance culture instead of a technocratic system. Therefore, this paper is built around these three building blocks *(see Figure 1)*.

FIGURE 1: BUILDING BLOCKS OF EFFECTIVE PERFORMANCE MANAGEMENT

I DEFINING PERFORMANCE
[Page 4 - 11]

- Focus on relevant "what" and "how" performance drivers
- Operationalization by meaningful indicators and processes
- Effective translation into goal structure and calendar

II LEADING THE PERFORMANCE CYCLE
[Page 12 - 19]

- Managers taking ownership of differentiation and feedback
- Supervisors role-modeling and calibrating assessments
- Adequate support by HR, Finance and Strategy

III LINKING PERFORMANCE WITH OUTCOMES
[Page 20 - 28]

- Adequate spread of formal incentives
- Informal recognition beyond individual feedback
- Defined career outcomes of performance/potential ratings

EVERYBODY NEEDS SOMEBODY: UNDCONSORTEN AND YOUR PERFORMANCE MANAGEMENT

There are times when everybody – or every organization – needs to ask somebody for help. Just like the Blues Brothers, undconsorten embraces a truly collaborative approach. We work with you to pinpoint your unique challenges, pooling our resources to find solutions that really work in your specific situation. Furthermore, our support continues as the agreed measures are implemented.

A STRATEGIC, STATE-OF-THE-ART APPROACH

We clearly believe in performance management being, above all, focused on performance drivers and indicators that have strategic importance and at the same time are simple and easy to communicate – a true strategic management tool for both results and behavior. On top of that, we help you build and develop the performance leadership capabilities of the executives who actually run the system. This is "where the rubber hits the road".

BALANCING STRUCTURE AND AGILITY IN PERFORMANCE MANAGEMENT

From our perspective, freedom for managers within performance management processes (such as goal setting and performance evaluation) is crucial in order to be agile and meet decentral requirements. At the same time, we build central supporting structures where helpful and necessary in order to avoid a patchwork of different systems.

INTEGRATED VIEW ON THE LINKS OF PERFORMANCE MANAGEMENT

We emphasize the need to create effective and efficient links to key functions and processes in your organization – including talent management, strategy, and budget or operative planning.

VAST EXPERIENCE IN ADVISING TOP MANAGEMENT TEAMS

Defining performance and the management of it is clearly a task for top teams. We have had extensive involvement in top management alignment, workshop cascades and the co-creation of performance management concepts. We are seasoned in acting at the highest level and believe in speaking truth to power, drawing on our in-depth knowledge of HR, strategy and business.

I DEFINING PERFORMANCE

DO YOU KNOW WHERE YOU'RE GOING TO?

Anyone reading this booklet will testify to the innate complexity of running an organization today. If, like Diana Ross suggests, you aren't sure where you are going to, it may be because you have difficulty defining performance. Then you are in very good company: it is a huge challenge for many of our clients. So what is performance and what drives it?

We all know that the aim of performance is to increase value in a sustainable way - but this abstract definition alone (using long-term EVA, for example) does not specify what drives it or how, which is not particularly helpful for frontline managers when trying to manage and improve their business. As a result, you need to master the challenging but necessary task of identifying and prioritizing performance drivers which create the link between behavior and performance outcomes. Typical pitfalls at this stage range from drivers being too numerous, not linked to strategy, too detailed, too abstract, or purely financial.

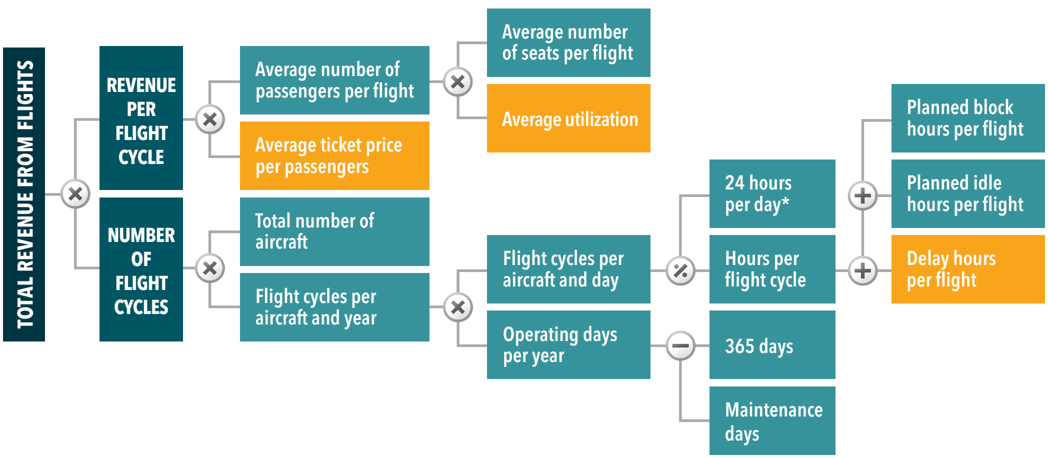
There are two types of drivers: "what" and "how". Once you have defined your drivers, you will need to ensure that they have the optimum balance in order to be most effective.

"WHAT" DRIVERS

"What" performance drivers describe the output of your company's operations that ultimately drives performance. They need to be tangible and have a clear, measurable impact on EVA, as would be portrayed on a driver tree. They can take on several colors and shapes also depending on the length of the time horizon you are looking at, eg customer lifetime value in sales, delivery time in logistics or rent per square meter in real estate.

For example, an airline had the hypothesis that flight punctuality had one of the largest impacts on company performance. They decided therefore to focus purely on punctuality as key performance driver *(see Figure 2)*.

FIGURE 2:
CLIENT EXAMPLE OF AIRLINE FOCUSSING ON 'PUNCTUALITY' AS KEY PERFORMANCE DRIVER



impacted by punctuality

* depending on airport operating hours

Thorough analysis and discussion of the "what" drivers are crucial to avoid creating a contradictory system that will sabotage the desired result. A useful illustration is the case of a machine manufacturer client, who selected production cost as a key performance driver. This led to compromises in product quality and - inevitably - increased long-term maintenance costs for customers. Their customers decided that this was an unacceptably higher total cost of ownership. Thus production costs alone were not appropriate anymore and a new performance driver was needed to be derived.

"HOW" DRIVERS

Achieving improvement of the abovementioned "what" drivers and thus the overall performance also requires guidelines as to the behavior that will produce it: the "how" performance drivers. The impact of these drivers on performance is usually hard to quantify – however, sustainable high performance is more likely when focusing not only on results but also on behavior. Common examples of the "how" drivers include: how well a process is executed, people leadership, collaboration or the willingness to "go the extra mile". Achieving top-management consensus both on the drivers themselves as well as their measurement is very difficult. Despite being critical to establishing a sustainable performance culture, this "how" part can easily be overlooked by top management.

BALANCING "WHAT" AND "HOW"

A challenge you will have to address is deciding on the mix and balance of drivers to suit your organization's unique situation and challenges. This can take different forms: in a turnaround or restructuring situation, a company may focus on short-term results and probably give more weight to the "what" drivers whereas the optimal balance can be totally different when aiming at long-term company growth and tapping a new market. This example also illustrates that flexibility and agility are required when defining performance as it may need to be revisited from time to time.

Last but not least, you will need to be sure that the mix of drivers you choose are compatible with your company values. The two extreme core beliefs are "the end justifies the means" and "results are not important as long as people behave appropriately". For a genuine and sustainable performance culture that inspires and nurtures improvement, you need to find a balance between these extremes.

GOT TO BE REAL

Since 1978, disco revelers all over the world recognize instantly the infectious riffs and easy lyrics of Cheryl Lynn's biggest hit. At undconsorten, we instantly recognize the sentiment: it's got to be real. Once you have agreed on your performance drivers, you need to ensure that they are tangible for frontline managers and employees. This is achieved by breaking them down into SMART indicators (ie specific, measurable, attainable, relevant, and time-bound) as a well-known minimum standard.

THE OPTIMAL NUMBER OF PERFORMANCE INDICATORS

Having the adequate type and number of performance indicators will make communicating them, and then cascading them down internally, much easier and more effective. An example of lack of focus was the 17 folders of KPIs that a client offered when asked for their definition of "performance". On the other hand, when drivers are well defined, it is also easier to stay with few performance indicators. In the case of our airline example, these indicators could be 'boarding punctuality' (how well do we handle the ground-side operations?) and 'departure punctuality' (how well do we handle the air-side operations?) for either hub- or non-hub airports (taking into account the differences in complexity and external influence factors).

> **„ A WELL-USED MINIMUM SUFFICES FOR EVERYTHING. "**
> *– Jules Verne*

THE CHARACTERISTICS OF PERFORMANCE INDICATORS

Beyond SMARTness, another requirement on performance indicators is their functionality as a strategic management tool – since they incentivize both managers and employees to optimize their behavior accordingly. A famous example for dysfunctional incentives refers to the Indochinese government which wanted to fight a rat plague in 1902 by paying people a premium for every rat tail handed in. Unfortunately, this initiative backfired and incentivized rat farming instead. To avoid similar situations in the business world, you have to choose your performance indicators wisely along different dimensions and also take into account certain trade-offs that these choices involve.

As an example consider a parcel delivery service. The number of parcels transported and the related revenue is clearly a lagging indicator, as it is the *result* of operational performance. The *origin* of operational performance, however, could be measured by leading indicators such as average door-to-door delivery time within Europe, average sorting time at the hub, or customer satisfaction based on net promoter score.

Furthermore, indicators can be either financial or non-financial. In a real estate company, for example, you can evaluate the property managers' performance either referring to the vacancy rate per square meter or as opportunity cost in terms of lost revenue. The latter makes the indicator more tangible but includes certain assumptions about the average rental price – which may vary and cannot be directly influenced by the property manager.

Whether you choose short-term or long-term performance indicators may depend, for example, on your current business situation. If you want to accomplish a turnaround or quickly enter a new market, a focus on getting into the black or on high initial sales can be appropriate, whereas you may rather aspire to steady growth rates when in calmer waters.

When it comes to company performance from a customer's point of view, you need to differentiate between indicators based on perceived data and those that can be objectively measured. If an urban transport company decided to use bus punctuality as performance indicator, it can make a huge difference if they refer to perceived or measured punctuality. Even if a bus is three minutes late, ie a non-satisfactory result in terms of measured punctuality, this probably does not annoy the majority of the passengers in their subjective perception. This perception might, however, change completely in the depth of winter when they are waiting at a snow-covered platform.

Performance indicators can also be qualitative or quantitative. Take, for example, the performance driver "leadership capabilities of managers": this could be either measured by employee retention in the respective team (quantitative) or by indicators such as employee satisfaction or the use behavioral anchors in an assessment of the supervisor (qualitative).

WE BUILT THIS CITY

Just like the city that Starship built on rock and roll, performance management needs a solid foundation to rest on. When designing a performance management architecture, there are several questions to be answered: what does performance management look like for different groups in the organization? What does the timeline and the cascade look like? What does the philosophy of financial rewards that are linked to the performance indicators look like?

The last question is of particular importance when we talk about setting the right incentives to make performance management work. The first thing that needs to be decided in this regard is whether you want to pay only for results ("what" alone) or for results and behavior (both "what" and "how"). Either way may be appropriate, depending on the company's and the employee's unique situation. Within these financial outcomes, there is further room to differentiate: a one-off bonus allows the supervisor to reward an extraordinary result in one specific year, whereas salary adjustments translate into higher overall income in consecutive years as well. Share option plans aim to induce a feeling of co-ownership and to establish long-term commitment and sustainability among employees. The same discussion arises when defining criteria for career development.

Figure 3 illustrates the outcome of a project for a services company client to redesign a mechanical, finance-driven incentive system for their top 100 managers. Our solution was to include non-financial goals and give supervisors singular freedom when measuring goal achievement.

By including non-financial goals, the client benefitted from a more sustainable performance culture. In addition to the benefit to the company, there was a very useful consequence for the managers in that they were less beholden to financial performance. In a year in which the numbers were bad, achievement of non-financial goals allowed incentives to still be deployed.

Moreover, we differentiated between incentives for different management levels. The relative importance of EVA for the final bonus payment decreased the further you went down the hierarchy, for the single manager has less direct influence on overall company performance and should focus rather on their strategic priorities.

FIGURE 3:
CLIENT EXAMPLE OF SHORT-TERM INCENTIVES (STI) FOR TOP 100 MANAGERS

PREVIOUS STI
EBITDA

NEW STI	BOARD	LEVEL I	LEVEL II
LEADERSHIP	20%	20%	20%
STRATEGIC PRIORITIES	20%	30%	20–40%
ECONOMIC VALUE ADDED	60%	50%	40–60%

Financial goals
Non-financial goals

II LEADING THE PERFORMANCE CYCLE

STEP BY STEP

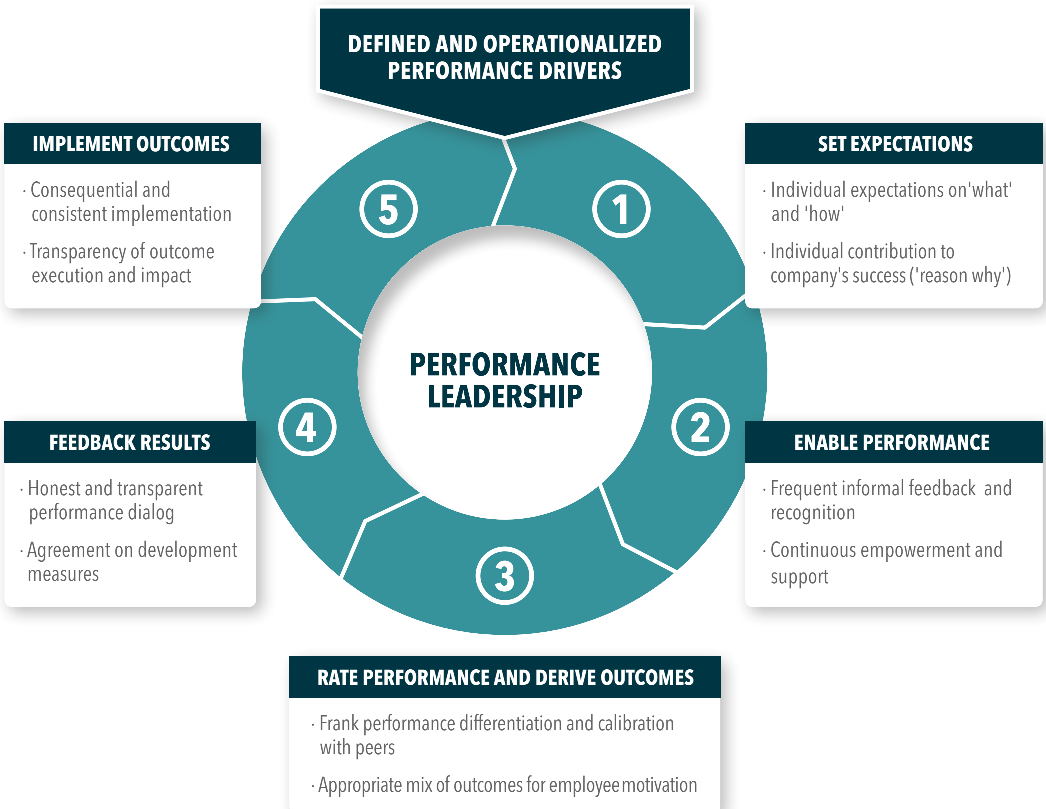
If New Kids On The Block were to sing about performance management, they would croon to your managers that to achieve the desired performance they need to successfully implement the classic performance cycle "step by step". The theory of an effective performance cycle is pretty straightforward *(see Figure 4)*.

At the beginning of the cycle, supervisors will need to clearly deduce and then communicate expectations on results ("what") and behavior ("how") to their employees. At this stage, it is especially important to explain the link between the organization's strategy and employees' individual performance expectations to create a sense of purpose.

The second step is about supporting employees to perform well. On the one hand, this means regularly checking up on where they stand in terms of performance but also making this interim assessment explicit. This also encompasses encouraging or disencouraging current behavior. Honest and development-oriented feedback is key, complemented by informal rewards and offers of further support. It is important that these feedback loops happen regularly – not just at the end of the cycle – as they are invaluable to inspiring the motivation that drives organizational success *(see chapter III)*.

Moving on in the cycle, performance must be evaluated and calibrated in a way that achieves both differentiation and fairness. Even though it sounds trivial to distinguish "good" from "bad", insufficient performance differentiation and calibration is the usual practice in many organizations. In an open dialog with the employee, managers need to clearly address evaluation results and related consequences, eg bonus payment or career development. Some organizations prefer to split this dialog into two separate meetings: one dealing with performance evaluation and financial rewards, the other one with potential ratings, future development needs and career outcomes.

FIGURE 4: THE EFFECTIVE PERFORMANCE CYCLE



At the end of the cycle, consequences should be implemented rigorously and visibly. How effective the cycle will be in practice depends, of course, on the system and processes in place – but proper execution by managers remains key.

This chapter introduces the roles of the three groups responsible for successful implementation, namely the managers themselves, their respective supervisors, and support from HR, finance and strategy functions.

In order to excel in the performance cycle, managers need certain skills in performance leadership, ie a manager appropriately leverages performance management as a strategic management tool, and does not resentfully go through the motions whilst actually viewing it as just another annoying bureaucratic duty.

There are plenty of possible circumstances preventing managers from being good performance leaders – a well-known one is that old villain: the fleeting sands of time. You may be only too familiar with time restrictions preventing sufficient attention being given to proper performance evaluations. It is also possible, however, that managers are just not getting the right performance management tools or support from HR. Another influence factor relates to a manager's own "skill or will". They may, for example, be poor at prioritizing or communicating, or reluctant to frankly differentiate good from bad performance (as they do not want to antagonize and demotivate employees through negative feedback, knowing they will have to continue working with them). Alternatively, the problem may arise from extrinsic barriers, which are beyond a manager's control in the short-run (eg ineffective internal processes and structures, such as over-engineered systems, or resource gaps).

„ KNOWING WHAT'S RIGHT DOESN'T MEAN MUCH UNLESS YOU DO WHAT'S RIGHT. “
– Theodore Roosevelt

When seeking to resolve such obstacles, managers need guidance and backing from their supervisors as well as support from their HR, finance, and strategy departments.

SIMPLY THE BEST

Tina Turner is pretty clear about who she thinks is “better than all the rest”, but do your supervisors also encourage and enable your managers to discern this in your organization? Sometimes it can be as brutal as the judgment of Paris, standing in front of three beautiful goddesses with his prize of a golden apple for "the fairest". (As the Trojans found out, the fallout can sometimes be messy…)

The supervisor’s key tasks start with defining performance and deriving its drivers. Leadership conferences or road shows are examples of ways to make these definitions explicit and to broadly communicate the organization’s performance management philosophy. Actively involving managers in co-creation of the performance management architecture increases their ownership even more. When it comes to evaluating employees based on performance indicators, we often hear from clients that they would like to achieve a larger spread, with high achievers being properly rewarded and poor performance being addressed, instead of an ineffective “one size fits all” approach. In this context, supervisors must give their managers clear directions and support for achieving true differentiation.

„ SEEING THINGS AS SIMILAR AND MAKING THINGS EQUAL IS THE SIGN OF WEAK EYES. “
– Friedrich Nietzsche

To sum up: in order to establish a mindset of performance leadership, it is essential for supervisors to act as role models, to empower their managers, to communicate clearly, to operationalize what good performance really means, to set clear rules especially in terms of rigidity of evaluation requirements and outcomes, and to advocate the desired performance distribution and differentiation *(see Figure 5)*.

Depending on the maturity of the organization, the differentiation requirements imposed by the supervisor may be either rigid or flexible with the latter option ideally being compensated by stringent calibration sessions. In these sessions, second opinions from peers and managers from higher up the organization are gathered, which makes them a powerful instrument to enhance differentiation but especially to achieve fair and consistent measurement standards within and across units.

In addition to improving the quality of the review process, a further – positive – side-effect of these calibration sessions is that they may reveal improvements required throughout the entire performance management system. These insights should then be reported back to the top management team to address them and adapt the performance management architecture if necessary.

Finally, in order to institutionalize performance leadership and to reinforce desirable behavior, supervisors need to make good performance management a part of good performance. In other words, the behavioral aspects of performance leadership (such as giving honest feedback) should become "how" performance goals and be measured and evaluated regularly.

FIGURE 5: KEY TASKS FOR SUPERVISORS AS PERFORMANCE LEADERS

ROLE-MODELLING	· Implement required performance reviews with own direct reports · Give regular, open and constructive feedback (line and project) · Reward good and sanction bad performance management
EMPOWERMENT	· Enable managers to decide on and implement performance management outcomes (eg differentiated compensation, additional training) · Strengthen managers' competencies along the performance cycle (eg differentiated evaluation, honest feedback)
COMMUNICATION	· Explain sense of purpose and business case · "Preach" performance management as a strategic management tool
OPERATIONALIZATION	· Define and focus performance on a few drivers and indicators · Clarify cornerstones such as target group, processes and responsibilities
RULES	· Balance rigidity and freedom of evaluation requirements · Ensure link between performance ratings and respective outcomes
DIFFERENTIATION	· Align on expected performance distribution · Calibrate fair performance differentiation

WITH A LITTLE HELP FROM MY FRIENDS

Even if all managers were natural performance leaders and you may have an appropriate performance spread and calibration, your strategy, finance and HR functions will still be invaluable for a smooth process. They are your helpful friends that the "Fab Four" knew would help you get by.

The interface with strategy is important at the outset of the performance management cycle. The definition of performance, its drivers and indicators feeds from the organization's overall strategy and should be in sync with key targets and long-term goals. When it comes to setting expectations, the interface with finance becomes important. In a structured target setting process, financial team and individual targets are derived from overall company targets. In the consecutive steps of the cycle, the manager always refers back to these targets when evaluating employees and giving feedback about their performance relative to the targets.

A third group of helpful friends that we would like put a particular emphasis on is the HR function. There are three roles, progressively assuming increasing levels of sophistication that HR may play in supporting managers.

At their most basic level, your HR team will facilitate your performance management process. For an example of what this can look like, whilst advising an energy provider, we worked with their HR function to develop a series of performance management training sessions for their executives to become performance leaders. Based on that, they applied certain proposed changes in their performance management system directly in the training session. To do this, 'avatar cases' were developed: exemplary representations of typical employees and difficult situations, for supervisors to hone their skills in target setting, operationalization, prioritization, evaluation and feedback.

Progressing up a level, HR may have the added responsibility to advise on and challenge the performance management process: Whilst working with a railway company, we helped design – and then led – a calibration discussion within a board panel.

Our aim was to establish an open, fact-based discussion on the "how" performance using a new leadership model and to ensure balance between "what" and "how" performance. A key development was introducing a 'devil's advocate' – a role that was taken by HR – to actively challenge the evaluation and ask for concrete behavioral examples. Furthermore, HR can mediate conflicts and nurture consistency across calibration discussions.

In organizations in which HR is involved at the highest level, they will strategically co-develop content, together with finance and strategy units. We once saw an outstanding example of an HR function effectively contributing to both the "how" and the "what" performance definition and operationalization. For the "how", a leadership model was developed by conducting a series of workshops with the top management. HR drove the process and used their expertise in organizational psychology and diagnostics to define behavioral anchors that made abstract descriptions such as "taking responsibility" more tangible.

In doing so, HR ensured top management alignment on the desired behavior. Regarding the "what", HR developed a concept, together with the business unit leaders, which helped reduce the large number of performance indicators, thus focusing on the most important ones. In addition, HR developed both a regular process of performance management evaluation and a mechanism to facilitate its continuous improvement.

III LINKING PERFORMANCE WITH OUTCOMES

LIVING IN A MATERIAL WORLD

Many of us, like Madonna, are living in a material world in which compensation and fringe benefits still really matter – but informal incentives or career development can also be motivating performance outcomes.

In order for performance management to work well within your organization, you must select the appropriate mix of outcomes if you want to motivate your employees and avoid frustration *(see Figure 6)*. To have real credibility, outcomes need to be implemented visibly and firmly, with managers not shying away from also delivering disappointing news.

FIGURE 6: THREE TYPES OF PERFORMANCE OUTCOMES

FORMAL INCENTIVES AS DEFINED WITHIN THE INCENTIVE SYSTEM	**INFORMAL INCENTIVES** AS TYPICALLY APPLIED BY THE SUPERVISING MANAGER	**CAREER DEVELOPMENT** IN LINE WITH THE RESPECTIVE PERSONNEL DEVELOPMENT SYSTEM
· Salary increase	· Praise /Public recognition	· Vertical or diagonal development (up / down)
· Bonus payments	· Empowerment	· Horizontal development
· Fringe benefits	· Training opportunities	· Parting of the ways
	· Team events	
	· Status	

We have seen, however, that the preference for formal (ie material) incentives can vary according to industry, organizational culture, a specific hierarchy level, right down to an employee's individual preferences. Moreover, attitudes to incentives are also evolving over time. It is apparent from myriad studies and conversations we have had with managers that money is less relevant for their younger colleagues or candidates than work flexibility and a work-life balance. In the absence of a "one size fits all" solution, formal incentives must be deployed wisely.

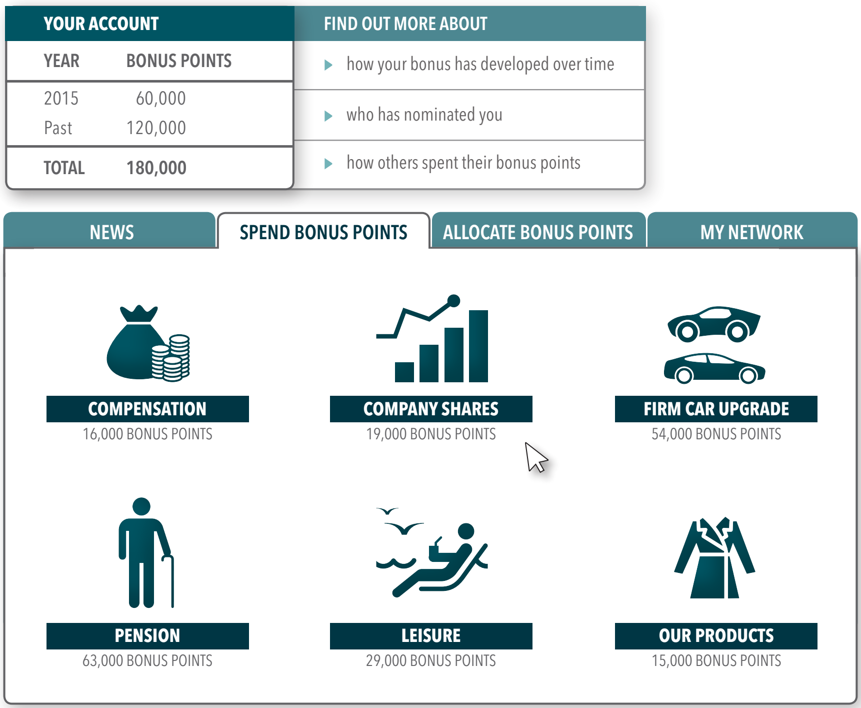
Try this possible solution for size: What if instead of getting an annual bonus, your employees could choose freely how their performance would be rewarded? Possible options might include: money, a firm car upgrade, access to special training courses, holiday or even allocating the bonus to a team account where it can then be used for team events. One innovative solution could function in a way similar to frequent flyer programs: bonus points are collected and then exchanged for specific rewards. In such a system, the "exchange rate" has to be clearly elaborated and can be varied over time *(see Figure 7)*.

> **„ I HAVE THE SIMPLEST TASTE. I AM ALWAYS SATISFIED WITH THE BEST. “**
> ***– Oscar Wilde***

It is, however, not only the form and the amount of the material incentives that motivate employees. Timing is an important aspect as well. If an employee did something extraordinary, rewarding them with a higher bonus at the end of the year might not have the same motivational power as immediately handing him a (usually smaller) amount of money from a discretionary budget, eg for a nice dinner. In the latter situation, the employee will perceive performance and reward as much more closely interconnected, which may sustainably enhance their performance.

Finally, our perspective does not have to be restricted to formal incentives on an individual level alone. There might be cases in which the allocation of extra budget to a manager's organizational unit (eg for a specific project that is important to them) has a higher motivational power than a marginal individual salary increase. Furthermore, from a company perspective, the amount of money spent would have to be seen not as a mere "cash-out" but, rather, as an investment.

FIGURE 7: BONUS POINTS MODEL FOR FORMAL INCENTIVES



R-E-S-P-E-C-T. FIND OUT WHAT IT MEANS TO ME

Being respected in a professional or personal context is very important to almost all of us – not just Grammy-winning American singers. We find that when clients use informal rewards to motivate their employees, if done properly, it can have as much impact on their employees' motivation as formal incentives. However, this does not mean that informal rewards can completely replace formal ones. To use an extreme example: if bonuses are cut for two successive years, then crowning someone "employee of the month" will not prove a significant motivator. They want more than r-e-s-p-e-c-t alone.

„ I LIKE TO PRAISE AND REWARD LOUDLY, TO BLAME QUIETLY. "
– Catherine the Great

We have frequently advised organizations which traditionally underestimated the motivational power of informal incentives – such as praise, internal recognition or team events – to celebrate successes. In one case, a manager of one of our clients complained about a culture of high pressure and constant criticism which was created by their top management as they believed that too much positive feedback makes employees lazy. Quite the contrary is shown by many empirical studies: one of them found that that in highest performing teams, there are nearly six positive comments given for every negative one.

Just as with formal incentives, we have found that it is vital to adapt informal rewards to suit individual motivational preferences. One employee may respond to public praise, another may prefer status symbols (for example a more impressive job title). Another appreciation of extraordinary performance could be assigning the employee to special projects, offering part-time solutions or permitting home office.

In conclusion, by implementing these performance outcomes effectively, you will increase employee satisfaction and find that a previously spinning revolving door turns more slowly as your high-performing employees feel less inclined to go…

I LIKE TO MOVE IT, MOVE IT

Madagascar's King Julien has his own unique take on what constitutes desirable horizontal and vertical movement – but which direction does your organization apply to your employees' career ladder? We encounter many avoidable issues which have arisen as a result of inappropriate career outcomes, the most frequent being:

- A lack of consequence regarding poor or mediocre performers who occupy positions and thus block the development of excellent performers
- Insufficient (horizontal) development of average performers even though they constitute the backbone of your organization
- Promotion for great results (eg sales increase) in spite of a dreadful leadership style or, on the other extreme, promotion of great "people leaders" even though they do not have a significant impact on company performance

A failure to implement outcomes in the right direction – or even at all – risks tipping your organization into a vicious circle in which your top performers will leave while poor performers stay on, attracting more low performers, leading in turn to higher attrition rates of high performers, and so on.

Therefore there are two crucial aspects to be addressed: firstly, you will need to achieve a shared understanding – especially among top management – as to which specific outcomes will follow a particular performance. This again boils down to the question whether the "end justifies the means" and with which degree of rigor management wants to reward high performance and punish low performance. Clearly, this question of desired organizational culture is not easy to answer. Secondly, you must have clear interfaces between your performance management, compensation and talent management processes in order to ensure a swift implementation of outcomes, but also to avoid communicating contradictory messages to employees.

> **„ STAND STILL AND SILENTLY WATCH THE WORLD GO BY – AND IT WILL. “**
> *– Unknown*

COMMON VIEW ON CAREER OUTCOMES

Typically, career outcomes are based on an employee's performance (results and behavior) as well as potential. In many cases, outcomes can be derived quite easily, such as for a high performer in both the "what" and the "how" dimension with extraordinary potential. However, there are also less straightforward cases in which management teams need to make a judgement call which requires close upfront alignment regarding the logic and philosophy of specific outcomes.

Figure 8 shows three examples that can lead to particularly controversial discussions among managers:

1 A HIGH PERFORMER WITH LOW POTENTIAL

With this type of employee, you face the risk of demotivating them if you don't offer any career outcome, especially if financial rewards are not possible. Lack of potential makes promotion difficult and if horizontal career development is not an option either, due – for example – to a lack in their mobility, you will need to find other rewards, such as informal incentives (eg public praise, the opportunity to lead an exciting and important project,…).

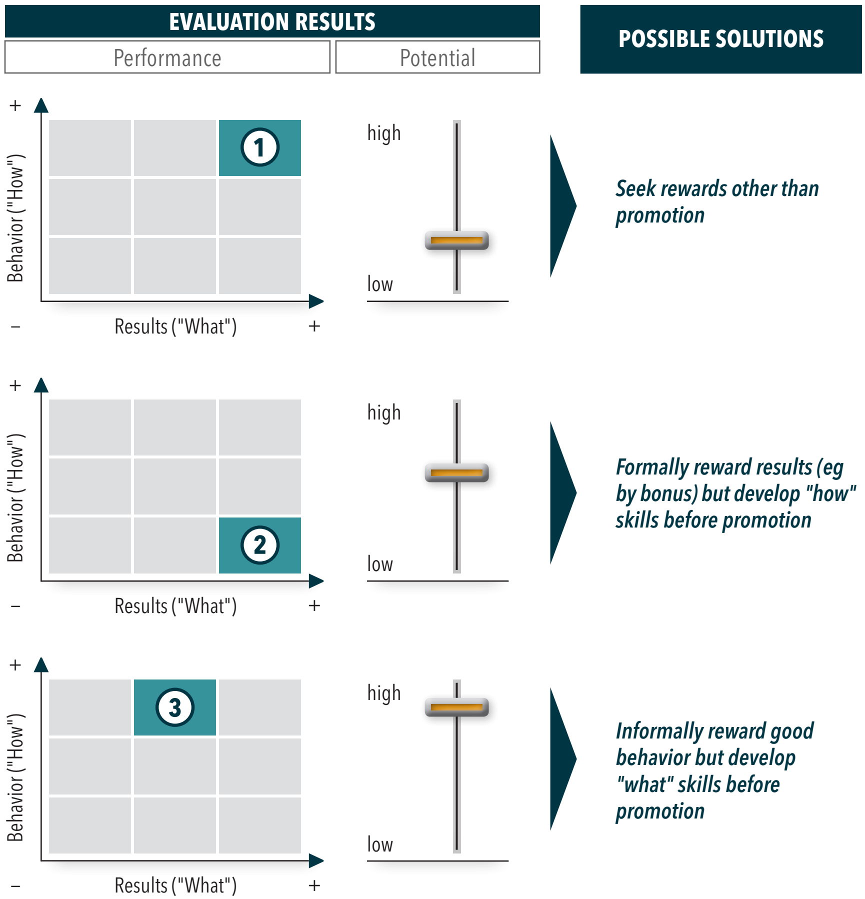
2 A RESULTS-ACHIEVER WITH POOR PEOPLE SKILLS

Here you run the risk that this type of employee's poor behavior will continue if there are no consequences, consequently upsetting any employees around that person. There is a particularly high risk that if your company is under strong pressure to deliver results, then the actual manner in which they are achieved may be deprioritized. Thus, you are faced with a moral conflict between rewarding results and an organizational obligation not to tolerate a lack of integrity.

3 A GOOD "PEOPLE LEADER" ACHIEVING MEDIOCRE RESULTS

This type of employee might be well-respected for the manner in which they develop their team and foster leadership development within the company. However, just trying hard and being nice isn't enough for a promotion, as this doesn't compensate for not getting excellent results. At the same time, however, you may risk disincentivizing good leadership.

FIGURE 8:
CONTROVERSIAL CASES FOR IMPLEMENTING THE RIGHT CAREER OUTCOMES



Whilst advising a retail banking client on leadership development, we examined these cases with their top management. It proved extremely helpful to identify and discuss the different points of view regarding the respective importance of results and leadership in more detail and to then achieve a common language on appropriate career rewards or sanctions. This shared understanding regarding outcomes was then communicated to all the relevant direct reports thus clearly setting out expectations and reducing the likelihood of unpleasant surprises.

INTEGRATION WITH TALENT MANAGEMENT

As you would expect your employees' performance to determine their career development, you must ensure that the elements of your performance management architecture are in sync with the relevant elements of your HR processes already in place – such as talent pools or succession planning.

For many organizations, this is often easier in theory than in practice. For example, the performance indicators a client was using when measuring vis-à-vis compensation and benefits decisions were different from those indicators used for making promotion decisions within talent management. In order to avoid confusion and frustration among employees when their supervisors communicate different messages in different contexts, it must be the role and responsibility of HR to establish a standardized definition and operationalization that is useful and acceptable in both processes. This can be done by either establishing a clear interface between the processes or by integrating them into one.

In a series of benchmarking interviews, we found different degrees of integration in place and an even spread of organizations along this continuum. Some companies intentionally keep performance and talent management as two separate processes – mostly with a coordinated calendar – in order to give proper room and attention to both performance outcomes and development planning. Others have opted for a fully integrated approach in order to make the process more efficient and consistent. Some companies have partially integrated their performance and talent management, which can be achieved in three different ways: (1) use of the same evaluation form or an integrated IT system, which simplifies the evaluation process for managers and HR, (2) integrated calibration sessions that deal with both performance and potential as well as the respective outcomes, and (3) an integrated dialog with the employee that consolidates feedback from the two separate processes.

ENCORE
ACHIEVING PERFORMANCE CULTURE

Like Rome, the perfect performance management system cannot be built in a day. It must evolve and needs to be constantly adapted in order to be effective and efficient, fair and accepted, certain and helpful.

Sometimes, all that is needed to make a previously unfit-for-purpose performance management system suddenly properly functioning is the slightest of tweaks. This may be something as simple as optimizing single process steps in the performance cycle (eg taking a step back to consider what really drives performance in your organization). In other cases, when too many quick fixes have resulted in a non-effective, messy patchwork, your changes will have to be more fundamental – such as designing a whole new system for evaluation and calibration.

Beyond the structural issues that need to be addressed, the fundamental question remains of how your organization can make the necessary transition from a mere performance management system to a performance culture. Surpassing the technical requirements of a system and achieving a culture requires – above all – dedicated leaders possessing the aspiration and ability to constantly improve performance and encourage change. Embracing change does not only relate to the business but also to performance management itself, since it is not a fixed discipline set in stone, but is instead influenced by many varied and evolving factors, including the market environment and employee preferences. It therefore requires an element of agility and continuous improvement in order to be properly fit for purpose.

And finally, weaving performance management into your culture means it must permeate the entire hierarchy, touching each element in your organization without exception. Always be aware that every one of your employees, regardless of level, needs clear targets and expectations, praise and rewards. Performance management therefore transcends mere compensation and benefits:

> „ **CONTINUOUS IMPROVEMENT IS BETTER THAN DELAYED PERFECTION.** “
> *– Mark Twain*

It is about making your organization and everyone in it harder, better, faster, stronger.

HELLO! IS IT ME YOU'RE LOOKING FOR?

When seeking to boost your performance management, you might not exactly be looking for Lionel Richie, but maybe for undconsorten. Due to our holistic and collaborative consulting approach taking content, people and structures into account, we see the complete picture and provide hands-on support in every aspect of performance management – from architecture to continuous improvement.

PERFORMANCE MANAGEMENT EXPERTISE

Drawing from our involvement with the entire spectrum of organizations, we have built up a comprehensive understanding of all aspects of performance management, be it: deriving the right performance drivers, balancing behavior and results, drafting an effective structure of compensation and benefits, or designing trainings to help your managers successfully implement the performance cycle. We understand the challenges of performance management and have experience at various hierarchical levels of an organization. In short, we can help you establish a true performance culture.

SENIOR BUSINESS PERSPECTIVE

Our consultants work with top management, so we bring a solid business grounding and commercial acumen to deliver the right solutions both for specific challenges and for your organization as a whole. We have the courage to ask the tough questions, addressing underlying perceptions and expectations of any vital stakeholders. By challenging at the most senior level, we ensure proper scoping, thereby saving time and resources.

DELIVERY ORIENTATION

Excellent concepts are necessary for impact… but unfortunately not sufficient. Many projects – also in performance management – fail as they are unable to mobilize frontline managers and employees who actually run the show. We have a vast experience from numerous business transformation projects where we helped people improve the way they work – be it through our collaborative approach in designing the blueprint, our experience with learning architecture and delivery in order to ensure that everyone has the appropriate skills, or our expertise in reshaping and implementing the respective processes and systems. We do not only design but also get our hands dirty in supporting implementation and delivery.

OUR SUPPORT

Our support expands to the three pillars of performance management and its improvement *(see Figure 9)*: the architecture of your performance management system, the proper implementation of the performance cycle, the intelligent application of performance outcomes and, finally, the review and continuous improvement of your performance management system in order to ensure sustainability.

FIGURE 9:
UNDCONSORTEN PERFORMANCE MANAGEMENT CONSULTING SERVICES

BUT HERE'S MY NUMBER, SO CALL ME MAYBE

...to finish with the song by Carly Rae Jepsen: **+49 (0)30 88 92 94 - 100**

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