

Performance Management – lessons learned?

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With ever increasing demands on budgets and seemingly never ending time pressures, management must focus their efforts on projects that will result in increased efficiency and drive superior performance. To assist with this, many companies have introduced performance management practices with varying levels of success over the years, leading some organisations to question investment in such systems. Do successful performance management systems play a significant role in driving superior performance? And what makes a performance management system a success?

Do successful performance management systems drive superior performance?

A PwC study⁽¹⁾ of 400 business leaders found a clear link between effective performance management and superior financial performance. High performing companies typically outperform peers by 54%, and are 67% more successful at entering new markets, 61% more successful at generating growth through innovation and 51% more successful at introducing new products.

The focus on performance management is a key driver for this success. The need to effectively measure key business indicators - and to cascade accountability - is a consistent feature of high performing companies whether:

- in boom times or downturns;
- in large or small organisations;
- in the public or private sector, and;
- across industry sectors.

High performing organisations place a greater emphasis on managing employees, striving for employee satisfaction, and evaluating management and staff performance. A performance management system helps to drive the actions of employees aligning their energy and behaviours with the long-term business strategy.

What makes a performance management system a success?

We have recently seen a renewed focus on improving performance management systems. In reviewing the successful projects - where PwC has collaborated with various organisations across industry sectors to introduce PM systems or to implement changes to existing systems - we have identified 9 key features of success.

1. All relevant stakeholders are involved from the outset: Human Resources cannot design an effective employee performance management system in isolation. The management and supervisory functions (remuneration committees, risk management, finance, compliance, human resources and strategic planning) should be involved in the design of performance management systems and remuneration structures, and employees should be actively involved in setting objectives. High performing companies are more successful at obtaining senior management buy-in for the performance management system. Where senior management are not driving the process, these projects have been difficult to manage internally due to cultural resistance and fear of change.



2. Clear and concise goal setting: This is one of the key features of success; in successful implementations key stakeholders invest the time setting appropriate group level targets, and then cascade these down the organisation. Where employees are actively involved in the target setting there is a greater understanding of key deliverables. Successful goal setting typically avoids an overly formulaic approach, includes financial and non-financial targets (with the blend varying by role), limits the number of key performance targets to ensure a better focus of effort on the key deliverables and links the bonus payouts to outcomes rather than actions.
3. Clear measurement of each goal: Performance goals should be quantifiable and have both internal and external dimensions (i.e. grow revenues by 5%, increase customer satisfaction by 10%, etc). These goals can then be translated into specific performance targets which will define what each employee is required to do. Be careful what you measure; avoid encouraging short-term behaviours that are not in the long-term best interests of the company (e.g. focusing on sales growth, with no link to cashflow or profitability). High performing companies are 44% more effective in cascading accountability for key long term business drivers through the use of relevant and controllable performance metrics.
4. Keep it simple: As with any system it is important to keep the key messages and required processes simple, therefore increasing the likelihood of employees understanding targets, and reducing the administration burden on the company (e.g. avoid overly cumbersome online form filling). For larger organisations, where these systems can become complex, this may mean a periodic process review and appropriate training for supervisors to keep the process fresh. Successful companies have a two-way communication with each employee on the goals for the year, with a mid-year review to encourage appropriate behaviour modification or enable feedback on the status and market conditions to date.
5. Clear line of sight between performance, reward and career progression: Employees will typically be more motivated to perform a series of tasks if they can understand how this will improve their situation – either financially or through promotion or other reward elements. In a number of recent engagements PwC has assisted organisations that have limited or no bonus pools, or where there has been significant staff turnover/lack of motivation among employees not eligible for a bonus. Non-cash reward elements (such as: respect/appreciation, culture, opportunities to work abroad or on various teams/projects to broaden experience, education, training, promotion, and work life balance) can play a significant role in motivating these employees.
6. Fair and consistent measurement process: One of the common pitfalls of performance management is the personality based assessment of individuals - one manager giving everyone on his team top ratings and another manager giving everyone poor ratings despite similar performance levels. The larger the organisation the greater the challenge to agree consensus ratings; multiple team performance rating sessions can assist with avoiding inconsistencies.
7. Incorporate risk management and measurement: A key challenge for many of the organisations PwC has assisted is translating performance targets into actual risk adjusted incentive awards. Performance targets should be underpinned by appropriate risk management to avoid encouraging decisions that will pay out under the annual bonus plans, but may have longer term downside risks.
8. Appropriate level of reward: The size of the reward on offer should be relevant for the individual role. If the bonus or potential non-cash reward is considered too low then the employee may not be motivated. It is worth considering what you are expecting employees to achieve compared with other peer companies and how the corresponding levels of reward compare. Avoid spending too much of the budget on high performers to the detriment of high potential and pivotal talent.
9. Use the data gathered through the performance management system: There is a wealth of useful data gathered through the performance management system – on employee efficiency and effectiveness, weak teams, market conditions and performance against the various group wide targets. High performing companies monitor this information and use it to improve efficiency and drive through financial performance.

Is it time for a performance management check up?

Evidence suggests a clear link between successful performance management and company financial results. There is unquestionably a role for HR to play in driving the performance management agenda and ensuring that limited management time is spent getting performance management systems right. Organisations with strong, well functioning and evolving performance management systems are better equipped to forecast opportunities or threats, to manage costs strategically and to make difficult decisions in a more efficient manner.

If you would like to discuss this or any other Reward related matters please contact:

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