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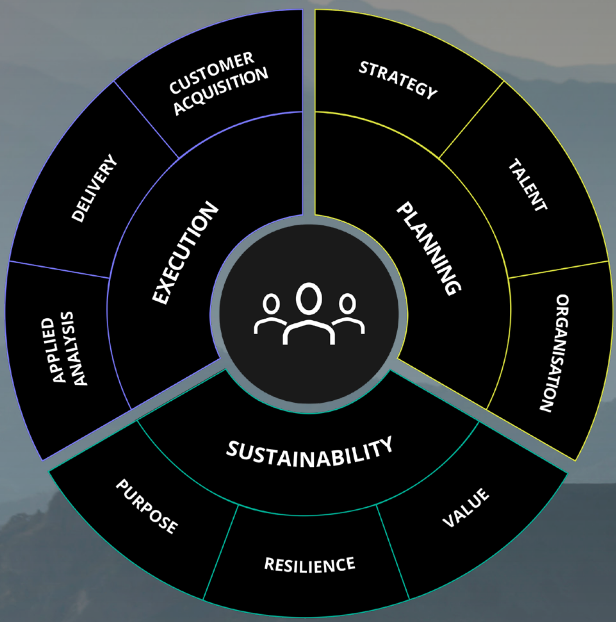
How to Scale Toolkits



Performance Management Excellence

This toolkit includes:

- What a typical performance management system looks like
- Three important elements to achieveing performance management excellence

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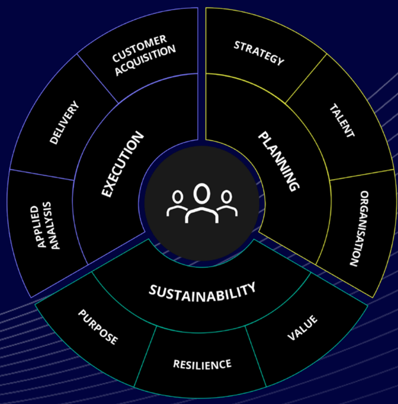
Introduction



Performance management has been called "the most hated process everywhere in the world". Here are the common issues this refers to:

- **Bad design:** e.g. unobtainable or uncontrolled objectives, confusion of purpose (rewards, development, expectations)
- **Poorly trained or engaged appraisers:** leading to inconsistency or lack of proper output
- **Low organisational priority:** not ensuring time and resources available to make it effective

This reflects the bad practice of the past, whereas the modern approach focuses on more frequent conversations, more flexibility about inputs and outputs, and unbundling goals.

What is Performance Management?

The starting point should be to analyse what is meant by 'performance management.' Here is a comprehensive definition from Murlis and Armstrong:

Performance management is the continuous process of:

- Improving performance by setting individual and team goals which are aligned to the strategic goals of the organisation
- Planning performance to achieve the goals
- Reviewing and assessing progress
- Developing the knowledge skills and abilities of people

About the co-author

Amanda Stainton
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Amanda Stainton is an Operating Partner at Frog. Her career in HR functions spans some 30 years. After initial starting out in HR planning, she quickly progressed to leadership positions in financial services.

She then spent several years consulting across a wide range of organisations in all sectors using her skills and experience to help leaders create the right culture to improve both engagement and performance.

Latterly she was HR Director at Portakabin Ltd, where she led the successful development of the people & culture approach and all health, safety and environmental activities.

About the co-author

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Steven is a Senior Partner, CFO and Head of Portfolio of Frog Capital, with over 20 years of PE experience gained both within PE firms, and as a senior executive of PE backed companies.

Steven spent eight years as a CFO in two VC/PE backed businesses, both successfully exited. In addition to his operational experience, Steven spent four years as a portfolio director at Livingbridge.

Performance at the company or team level will be financial or commercial, but might also include KPIs like churn or key accounts. Whilst at the individual level, it might be deliverables (which are hard to measure individually in most jobs), behaviours, productivity or other outcomes, such as quality or positive client feedback.

Why engage in Performance Management?

There should be a clear flow from company goals to department goals, manager goals and individual goals. There should also be clarity on why the system exists.

This might justifiably be to:

- Assist with allocation of limited resource: pay, promotion, jobs
- Recognise excellent performance
- Get employees engaged with corporate objectives
- Set performance expectations: for individuals and the organisation
- Develop and improve individual and organisational performance in line with these expectations

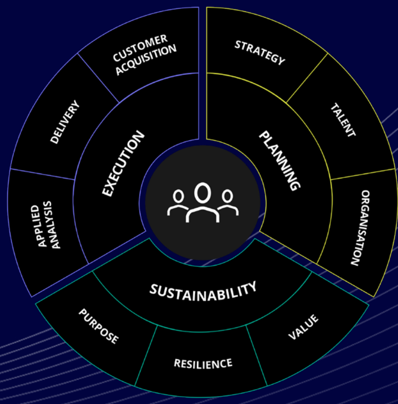
A surprisingly large number of organisations engage in performance management because they think they should or because they always have without any clear value add. A Deloitte survey on the subject showed that 58% of executives believed that the performance management approach was driving neither high performance nor employee engagement.

This group were also reported to confuse an appraisal system with performance management. Whilst a quality appraisal that reviews past performance, identifies development needs and actions, and sets expectations for the next period is a core part of performance management, it should be just one part of a more frequent, ongoing interaction that comprises proper performance management.

Indeed, its best use is to provide structure and documentation to the process but the beneficial impact is really derived from much more regular contact – part of the Deloitte reaction to the survey above was to put a much greater focus on weekly meetings. For some, the main benefit is that it forces managers to spend time talking to their staff but if this is the standard then there is a much bigger organisational culture issue.

This toolkit explores the core aspects of what a typical effective performance management system looks like.

Effective Performance Management



A typical performance management system might look as follows:

Definition of Business Role

- Job Decription
- Objectives of dept/group

Planning Performance

- Individual objectives
- Development plans

Delivering & Monitoring

- Ongoing manager support
- Ongoing review

Formal Assessment & Review

- Annual assessment
- Link to pay

Element #1
Fostering fairness and transparency

Two key motivating factors for employees of any company are **fairness** and **transparency**. Even though performance appraisal processes are not public, a well-run process will be evident to everyone, building confidence that everyone is experiencing the same process. If there is a strong connection between achieving clearly set performance expectations and progression (salary, bonus and responsibility) then people will see the process as fair. Transparency comes from seeing that everyone undergoes the same process, and the details do not need to be made public. The alternative is that leaders are seen to make ad hoc decisions based on informal interactions, or worse personal relationships, and fairness suffers (management debt).

More importantly, if the connection between good performance and the expectation of fair rewards is broken then motivation will suffer.

Many scale-up CEOs make the mistake of thinking that the grand gesture of an unexpected promotion or reward is justified by the fantastic response of the recipient. What they do not see so quickly is the lingering feeling of injustice if it is not clear to other people what justified this outcome. This feeling of injustice is equally likely if underperformers are not dealt with because they have been with the business for a long time.

Element #2
Why process drives better outcomes for all

Inexperienced managers can easily fall into the trap of focusing on the supportive, encouraging, motivating part of performance management. They will tend to skip the harder performance appraisal elements of identifying and communicating weaknesses and development needs, and ultimately will avoid making tough decisions if there is no commitment to effective change.

In the long term, this is doing both the company and the individual a disservice as the chances of improvement are slim without acknowledgement of the issue and direction on rectification. This type of poor communication might even mislead an individual in terms of their expectations meaning they may be demotivated or leave when their unrealistic expectations are not realised. It is inexcusable (not to mention, inconsiderate, incompetent, and often costly) for someone to be dismissed for poor performance, but not see it coming. They should have known, in advance, what they needed to do to turn things around, even if they didn't manage it.

The CEO will normally set the tone for what people perceive as acceptable within a company, especially in a scale-up business, but these individuals do not necessarily get open, honest feedback on their own actions. Without good company processes, it is entirely possible for a workforce to be generally motivated but also dissatisfied.

The CEO will get the feedback on positive motivation and think they are doing all the right things. But without a good HR function or someone who plays a similar listening role (e.g. a longstanding employee not in management but with a good open relationship with the CEO), they might not hear about the minor but consistent complaints that indicate growing dissatisfaction. The CEO's motivational aura may protect him or her from personal criticism about how people are managed, but the negative impact on company performance may persist nonetheless.

Element #3 - Set the standard and live by it

As CEO of a growth-stage company, you need to set a good example to the senior managers, and indeed the whole company, in being accountable, open to feedback and committed to addressing development needs (both your own and those of the company). This is perhaps demonstrating a degree of vulnerability that many founders and CEOs would not naturally want to show, perhaps because the scale-up phase is so much about strong self-belief, and less about being self-aware and open to personal feedback.

An essential development that CEOs in the scale-up phase experience is losing the feeling that you need to have all the answers. This is a journey that any founder who wishes to remain as CEO in the long term needs to go through. Almost certainly, a good mentor or coach will be needed to get them there. Identifying the appropriate development approach required for each individual is a fundamental part of the asset management programme for your greatest asset. This sets the tone in terms of fairness and transparency throughout the company.

Performance management doesn’t need to be bureaucratic and hierarchical, but it does need to provide a structure for the ongoing interaction between leaders and colleagues linking organisation and personal goals. It also needs to adapt to changing goals. Research on millennials shows clear differences to previous generations, especially in regard to flexible working and more relaxed or informal working environments. They also expect recognition from their bosses, meaningful work and to be challenged. A good performance management process should be perfect to meet all of these expectations.

Ten years ago, the outcome of a task was 80% due to individual efforts. Now, it is more likely to be 50%. Relying on simple performance metrics is no longer effective enough and, certainly in service industries, going beyond the obvious KPIs is critical. Describing good and bad behaviours within the performance management system is essential to genuinely improving organisational performance not just ticking boxes on a dashboard. Job satisfaction will also benefit by building staff confidence in what the right thing to do is and will allow greater freedom of action.

To summarise:
What works best in Performance Management is:

- **The CEO leading by example.**
- **A CEO who gets honest feedback**, and is informed of underlying issues by trusted team members.
- **A senior management team with the maturity and honesty to be transparent about personal underperformance issues**, and who will develop the paths to address it.
- **A clear link between the company’s goals and an individual’s goals.**
- **A documented process.** This must be regularly followed up and form part of a continuous interaction between company, leader and individual. It should provide direct, transparent, connections between expectations, outcomes and progression.

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