Performance Management

Foundation for Resilience and Platform for Recovery

By Tommy M. Onich, CTP

A corporate turnaround may be thought of as a transformation that has been tragically delayed. This need for metamorphosis is driven by a lack of corporate resilience which permits an organization to change and adapt as necessary. This article examines the core elements and principles of performance management and provides meaningful and useful information both for organizations seeking recovery and those hoping to prevent difficulties.

Corporate resilience rides on the ability of the organization to reinvent business models and strategies as circumstances change. It is founded in critical thinking and requires that organizations overcome cognitive challenges of eliminating denial, nostalgia and arrogance. It also requires success in the political challenge of reallocating financial and human resources to where they can earn the best returns. The ideological challenge of learning that strategic renewal is as important as optimization.

As its core, corporate resilience requires a culture of performance management. Such a culture provides the steel spine of resilience and can also provide a foundation where recovery or turnaround is needed. It is illustrative to examine the symptoms of a lack of performance management and then create a positive construct.

Typically, these symptoms are as follows:

- A lack of rigor surrounding the cash-management process.
- Poor or even nonexistent controls for manufacturing, planning and procurement.
- A disconnect between financial measurements and key performance drivers.
- A lack of accountability within management ranks.

These symptoms indicate a lack of critical thinking, slack corporate discipline and negative or even destructive behavior.

An effective performance-management culture does exist when employees use practical management tools to set targets, measure performance and implement concrete action plans to meet objectives. Most organizations set targets and monitor results to some extent. However, in most distressed companies, strategy and initiatives are not linked, and even if they are, rarely are they aligned to targets that drive the core engines of the business. Action planning is poor or nonexistent, making the implementation of a performance-management culture impossible.

Core Elements

Companies that have implemented and sustained a performance-management culture exhibit three core elements.

Leadership: Leadership is paramount. The role of the leader is to generate clarity around strategy and to provide focus on the critical priorities and activities needed for success. Sound leadership also ensures that the executive group is aligned, along with the processes and systems that translate action into metrics and results. Without solid leadership, it is unlikely that a performance-management culture can be implemented or a turnaround succeed.

Above all, leaders must "walk the walk and talk the talk." In other words, the best way to lead is still by example. The effective leader will also create an environment that fosters transparency and open communication. This creates the fertile ground for information flow that is so necessary in the resilient organization.

Telltale signs of ineffective leadership are poor morale or a corporate malaise. It is also evident in the range of conflicting objectives and priorities predominantly among sales, manufacturing and marketing.

Lack of executive alignment in these areas becomes very pronounced when a significant shift occurs in the external environment prior to a crisis. Effective leadership however, manages expectations, supports employees to achieve targets and deals with performance issues.

Accountability: A culture of performance management is not complete unless all employees are held accountable for results. The most powerful way to reinforce this is through the commitment of leadership to adhere to a single guiding principle. Ownership of results belongs to everybody.

This accountability becomes the norm through two main activities. First, individuals set specific objectives and targets for their respective functional areas. Using the support of management, the focus is on key measureables that drive strategic goals. Second, the same employees are empowered to take meaningful action that can directly influence the targets they have set.

Capability: Most workforces possess a high degree of knowledge about specific

Most workforces possess a high degree of knowledge about specific issues or areas. For instance, salespeople know their customers and press operators understand their equipment.//

//Capability, however, refers to the workforce's

issues or areas. For instance, salespeople know their customers and press operators understand their equipment. Capability, however, refers to the workforce's ability to solve issues that evolve on a daily basis by applying functional knowledge.

Without an adequate base of skills, employees will not be able to resolve business issues as they emerge in a performance-management culture. Common examples include marketing employees not understanding segmentation or value proposition, or salespeople not understanding contribution margin.

Capability by itself is not enough. Management must be committed and show leadership by removing barriers that inhibit employees from dealing with problems and issues that they encounter. A management team that achieves this creates a culture of accountability.

Performance Management Implementation

This begins with a clearly articulated strategy, which provides an overall vision of what the company is and is not going to focus upon. Companies need to develop and implement a well-thought-out and tightly knit strategy prior to any work on performance management.

The next step involves aggressively engaging the executive group in the development and implementation of the initiative. Once it has identified core target areas of the business, four activities become the focus for designing and implementing performance management.

Identify Core Drivers: The first step involves defining the current performance drivers and indicators that management uses. Typical examples could include production output, units of measure or sales revenue. This activity will most often expose a lack of agreement within the management ranks on issues such as a common measure of profitability. Opposing managerial goals should also become readily apparent.

Following this, management assesses the current drivers and indicators to identify their effectiveness. This requires a hands-on approach, exploring what the target departments and areas of operations perform on a daily basis. Activities could include external and competitive benchmarking and time-based studies in production. An important and revealing question, which each person in these discussions should answer, is: How do you know if you have done a good job? Anything short of a clear answer points to a lack of accountability.

Huge disconnects between what the company needs to execute and what it is really focused on should become readily apparent. Typical examples include:

- No (or inaccurate) measurement of contribution margin, resulting in producing and selling both profitable and unprofitable products.
- Ineffective production measurements, which can be easily manipulated to meet targets.
- Lack of or ineffective tracking of market shares of major products, distorting the company's position in the marketplace.

The next step involves developing an understanding around what the core drivers should be. Several groups or teams of individuals from management and line functions should form to identify the appropriate performance drivers and indicators. These should meet the following criteria:

1. Measureable: Quantifiable data is the focus, not targets such as "happy customers."
2. Controllable: A person or group of persons within the company needs to be able to affect the outcome.
3. Relevant: The drivers and indicators should directly link to key business objectives identified in the strategy.

This process will generate a clear understanding of how specific parts of the business need to be managed. It will also allow any lack of alignment between executives and management to surface.

Set Targets: With the core drivers established, the next step is to set specific targets. In many companies targets are set based upon historical data, devoid of any meaningful analytics. They also tend to be set by management and, thus, have limited front-line ownership. Often they are developed from budgets that may not hold any view of reality.

Target-setting has three parameters:

1. Attainable. Internal studies, bench-

ability to solve issues that evolve on a daily basis by applying functional knowledge.//

//Without an adequate base of skills, employees will not be able to resolve business issues as they emerge in a performance-management culture.

marking, time studies and discussions define what is achievable and attainable.

2. Driven from the bottom up. The individuals and groups used to complete internal studies and benchmarking are in a position to set effective targets.
3. Require ownership. Because both line employees and management set the targets, the right individuals who can affect their outcome own them. This engenders accountability and is crucial to effective management.

Implement: A performance-management culture succeeds when the right information is with the right people. Implementing this system requires that the relevant information is highly visible and timely, which usually means establishing an effective reporting system. A typical report would include the drivers and indicators, along with the targets that have been set. The report compiles results to track performance.

Implementation requires training individuals in each area. Thus, companies need to devote adequate time to train employees on the principles of performance management along with an explanation of their responsibilities and company expectations. Actively engaging the groups and teams that have assisted since the beginning of the initiative is important in developing competency and supporting employees. Market share and sales reports move from the hands of senior executives into the hands of managers and front-line staff members who are responsible for meeting targets. Production workers track their own outputs to targets and log the results at the end of the shift.

Review: This last step provides a formal mechanism that ties the whole performance-management system together and makes an effective performance-management culture attainable.

The purpose of reviewing results with the appropriate individuals in a timely manner is to generate specific and actionable activities, with a sense of urgency, for individuals who are accountable for the results. Employees move from a passive role to one in which they identify and capture opportunities and issues, and develop specific action plans to implement a solution. An elementary but essential activity is documenting this review. Essential information addresses the questions: who? what? and by when? With this approach, employees and management develop a bias for not only thinking through activities that will help them meet targets, but also for action.

Summary

Performance management is the core of the resilient organization. Such an organization is dynamic and has an inherent ability to adapt to change as necessary. For organizations faced with a crisis or actual turnaround, performance management is the platform for recovery and, ultimately, the enabler of resilience.

Organizations that lack a performance-management culture often suffer from a lack of rigor in cash management, poor controls, a disconnect between measuring data and determining its relevance, and a general lack of accountability.

Organizations with a performance-management culture embrace core values and principles. The core values are leadership, accountability and capability. The principles are: identify salient performance drivers, set targets, execute and review. A culture of performance management and the tempered steel of the resilient organization lay at the nexus of these core values and principles. TSL

Tommy M. Onich, CTP is the president of TCMI Limited www.turnaroundinternational.com and provides interim management services to distressed organizations. He has been practicing as a turnaround professional in both the United States and Canada for over 14 years. Onich can be reached at tonich@turnaroundinternational.com.