

# Helping Blind Men Dance with Elephants



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## Creating Value with Corporate Performance Management

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*Once upon a time, as the story goes, six blind men left their corporate village to visit an elephant.*

*"The elephant is a wall," said the first (from marketing) who felt the elephant's broad side.*

*"No!" cried the one (from sales) who touched the smooth, sharp tusk. "It's a spear."*

*"It's the trunk of a tree," said the man (from operations) who felt the craggy knee.*

*"No. It's a fan," insisted the one (from Human Resources) who touched the broad, silky ear.*

*"You're all wrong. It is a rope," insisted the one (from IT) who felt the grainy tail.*

*"Not at all," said the sixth (from finance) who felt the slithering trunk. "It's most certainly a snake."*

Like the parable of the blind men and the elephant, different corporate stakeholders each have their own perspective on Corporate Performance Management (CPM). Marketing managers see it as a means to enhance customer focus. Sales people view it as a way to increase sales revenues (and commissions). Operational managers view it as a way to sort out performance issues, pay increases (and pink slips, if need be). Human Resources view it as a talent management, development and segmentation tool. IT see in it data sharing and warehousing. Financial execs view it as a planning, budgeting and control process. And last but not least, shareholders and senior executives view it as a way to increase shareholder value and management accountability under Sarbanes-Oxley.

A successful CPM redesign effort must address these and other competing perspectives. All too often, Performance Management redesign results in satisfying no one as it tries to address the internal agendas of the different perspectives. "I've

redesigned the system half a dozen times without much real success," explains one frustrated Fortune 500 HR Director.

But technology may be changing what's possible – and most critically, what is world-class competitive.

In the past, a high degree of fragmentation and competing functional perspectives – the elephant problem – had hindered meaningful integration of the Performance Management process. But technology and competition are driving new requirements for integrated Corporate Performance Management. This can only be done through aligning resources as well as engaging people broadly. In order to understand how effectively CPM is integrated, companies can start by asking themselves the 12 basic questions of CPM to assess their current state of integration.

### The 12 Questions of CPM: An Integrated Approach

#### 1. Have senior managers built a consensus around what really drives value in the business?

CPM begins with clarification of what drives value uniquely in each business. Many experts say there are three types of core strategic focus. In well run companies, one is typically predominant, although companies must manage all three parts of the "triangle." These include:

- **Cost/Operational Excellence.** These "more for less" companies offer leadership through managing pricing and costs. Operational excellence and quality management are typical value drivers.



- **Customer Intimacy.** These companies offer exceptional service or products for customers willing to pay. Customer satisfaction, customer knowledge, and customer service are often value drivers.
- **Product/Service Innovation.** These companies rely on innovation in their products or services. Drivers typically are innovation, successful R&D, and speed of new products and services in the pipeline.

Being clear about what your strategy is and the priorities of what drives value is a good place to start when embarking on a CPM project.

The challenge is being aware of what these value drivers are and building a strategy and execution process to move them in the right direction. So, for example, a product innovation company would typically identify value drivers that relate to innovation as higher than cost control (though both are important).

### **2. Do all employees have an understanding of what drives value and do they have a stake in the success of the business?**

Not only do senior managers need to understand what drives value – so do all employees.

“Alignment management occurs when all activities of a company bear a direct relationship to the business strategy,” explain authors David Wade and Ronald Recardo in their book, *Corporate Performance Management*. Alignment also means individuals have a clear line of sight on how to impact the business strategy.

The purpose of Corporate Performance Management at its most basic level is to align engaged people, processes, and methods with the business strategy.

Say, for example, I am a manager of a business unit with 30 employees – my job is to both communicate the business strategy and maximize the overall performance of my group. I can plan, measure, establish accountability, evaluate and reward performance (alignment functions) based upon the value contributed by each individual. Yet my objective is also to motivate individual performance in a way that maximizes the total performance of my whole unit.

Too much focus on the top end (the high performers), or too much focus on the low end (the weak performers), and I fail to maximize the overall performance of the group.

The key is aligning and engaging all employees to maximize total performance. Notably, certain alignment functions can be paired with engagement functions to maximize value. These include:



- **Planning and Goal-setting.** The planning function focuses employees on what needs to be done. The goal setting function, however, engages employees in the challenge of the job. The best laid plans go nowhere if clear targets and objectives aren't set.
- **Measurement and Feedback.** Measurement gives the yardstick to know what is important. Yet ongoing feedback on measures is what keeps employees engaged. A yearly or even quarterly metric rarely engages employees to perform. Give me daily and weekly feedback on how I'm doing to ensure success.
- **Accountability and Coaching/Mentoring.** Clear job and unit accountability ensures that the structure is there to implement strategy. But coaching and mentoring actually engage people to succeed within the structure.
- **Pay and Recognition.** Pay for performance systems provide a clear direction for employees and communicate what's important. However, daily reinforcement and recognition is what engages employees to achieve those results.

### **3. Does the planning function support the business strategy?**

This question and the ones that follow address the functional aspects of Corporate Performance Management.

The planning function is notoriously one of the most difficult and challenging areas of CPM. Typically, operational planning, resource planning, budgeting and costing are not well integrated, and studies have demonstrated widespread dissatisfaction with planning processes.

In recent years Finance professionals have adopted a variety of practices to improve planning process such as rolling forecasts, zero-based budgeting, and value-based management. According to research conducted by the Financial Executives Institute (FEI), there is no one best practice planning solution that guarantees success.

Yet, in a research study of 225 companies conducted by Buttonwood Group in conjunction with FEI, researchers discovered that planning systems are, in fact, an area that many companies can target for immediate improvement. Not surprisingly, goal alignment, cost control and creating foresight were at the top of the potential planning opportunity list.

#### **4. Is there a clear linkage of business strategy to long-term targets, as well as short-term functional and individual goals?**

“Cascading objectives” has become a thing that everybody wants but few know how to do well. Certainly technology has made it easier to share information. However, goal setting, like planning, continues to be characterized more by back and forth negotiations than by rigorous assessment of data.

Connecting strategy to business unit objectives and then into functional and individual objectives remains a challenge in many companies. Yet, a rigorous approach to goal setting may be well worth the effort. Studies consistently show the link between high levels of employee engagement, goal setting and goal achievement. Evidence suggests that setting frequent, achievable goals is highly engaging. The way to reach “big” goals is through setting and achieving lots of small goals.

#### **5. Do measurement systems support the business strategy?**

Measurement systems come in many shapes and sizes, as varied as the strategies they support. One solution embraced by many companies in recent years is the Balanced Scorecard and its variations. Scorecards are used to measure financial and non-financial elements that may include operational, customer, financial and employee related metrics, often against benchmarking data.

Scorecards are powerful operational documents that can be extremely useful as a way to focus any level of management and provide solid evidence of progress. They can provide an ongoing desktop review of operating results and give early warnings of problems and indications of success.

The level and detail of such measurement varies in line with strategic styles. Operationally focused companies, for example, tend to use extensive measurement. One 3M plant



we worked with had an abundance of measurement that overwhelmed even the Baldrige Award judges. Was it too much measurement? No, because it was their measurement and the ongoing feedback helped them to achieve a remarkable turnaround in plant performance.

#### **6. Does ongoing feedback support the measurement system?**

The trouble with measurement is when it loses its connection to what people are doing daily on the job. The best measurement systems provide ongoing feedback to engage and involve employees. Too often, measurement is used as a punitive “do it or else” tool, when it could be used to report and reinforce progress and assess the need for changes in direction.

Feedback is one of the least understood and under-utilized tools of any Corporate Performance Management system. Providing frequent and easy-to-interpret feedback through a CPM system means that a performer knows how they are doing and what to do if corrections are needed.

Feedback comes in many forms – in visually appealing pure data such as graphs and scorecards, in “constructive” feedback delivered by managers, or in reinforcing “positive” feedback also delivered by managers and fellow employees. What’s important is that the performer knows how they are doing. And managers have a tool to dialogue with employees about what’s needed.

#### **7. Are managers and employees held accountable for results?**

Management reporting and accountability are often closely linked. Too often, companies don’t hold managers and employees accountable for results because of the inadequacy of

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management reporting systems. The real question is, "Is there accurate, timely and balanced performance information" that can be used to hold people accountable?

A company may be highly disciplined in reporting financial data, but less rigorous at producing customer, operational or employee data. Thus, managers may be held accountable for financial results, but less accountable for the non-financial data which may have long-term impacts (productivity, win/loss ratios, employee turnover, customer satisfaction, to name a few).

### **8. Are coaching and mentoring processes used to support performance improvement requirements?**

Coaching and mentoring are closely tied to high employee engagement, as Gallup and others have reported. Gallup, for example, reports that a "caring" supervisor or someone who has talked with an employee about their development or progress are important indicators of an engaged workforce. "Respecting my opinion" is a high engagement factor.

Effective coaches – whether external or internal – often utilize feedback and evaluation tools to help employees see new

patterns and the need for new behaviors. Coaching can be a catalyst for establishing goals and action plans to enhance results. Coaching can also help to ensure that managers attain those results through positive behaviors that build sustainable success.

### **9. Do you have a rigorous evaluation process?**

High performing companies like Microsoft and Coca Cola tend to set higher standards and then hold employees to those standards through evaluation processes. Studies report a trend in recent years towards developing tougher evaluation processes that better segment performance levels of the workforce.

While a business case can clearly be made for segmentation of the workforce, rigorous ranking evaluation practices have not always produced the positive organizational results intended. Segmentation can help target reward dollars and retain high performers. But segmentation can also have its down side. It can create dysfunctional internal competition. It has raised the issue of age and gender discrimination.

Some companies (notably Pepsi and Microsoft) have softened ranking and rating systems to enhance collaboration and



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professional development in recent years. The real positive benefit of a good CPM system is the evaluation of performers against clear and objective targets, not against other peers within the organization. Effective goals and targets are more often set against competitive benchmark data.



### **10. Are formal and informal processes used to progress employees to higher levels of performance?**

At an informal level, employee development is the basic dialogue that managers have with their employees about what to do on the job. Development can be a daily conversation or an ongoing discussion about skill development. It may also mean formal plans and processes used to develop skills and capabilities.

In recent years, companies have begun to utilize a broad range of more formal development plans and behavioral tools to focus employees on how a job is done. Behavioral competency “models” address specific development needs of segments of the employee population, such as leadership, managerial, skill contributors and administrative functions. Some of the more useful models identify a continuum of behaviors (from novice to expert, for example) that establish clear benchmarks for personal and professional growth and development.

Unfortunately, many behavioral competency tools fail to specify in concrete terms what employees need to do differently to add more value. Commonly, developmental plans will identify specific competencies, skills and action plans needed to enhance the employee’s value to the organization. These plans are frequently tied in to more formal learning systems within the organization.

### **11. Are pay practices aligned with the achievement of the business strategy?**

Pay system alignment and pay for performance are hardly new practices. Yet again, technology is changing what’s possible. Enterprise Incentive Management (EIM), for example, has

emerged as a highly specialized field with technology focused on incentive plan design and administration.

At the other end of the spectrum, however, there is evidence to suggest that giving managers more, not less, control over their pay decisions can lead to better management practices. Pay for performance may mean providing managers with more discretion to grant increases and bigger pots based upon unit performance.

### **12. Are non-financial reward practices aligned with the achievement of the business strategy?**

Non-financial rewards remain powerful for many employees. Recognition continues to rank as a critical factor when it comes to engagement, along with the challenge of interesting work, and well-planned assignments.

The most popular performance-based rewards in Fortune 1000 companies today are non-monetary recognition plans. according to a study by Edward Lawler. A high profile recognition program, supporting a company’s new CPM process, can go a long way to ensuring that CPM is planned and implemented.



### **Teaching the Elephant to Dance**

As evidenced by the elephant problem, functional silos in companies can hinder the meaningful integration of the Performance Management process. By aligning resources and engaging staff, however, companies can move towards a more integrated approach. It is important to remember, though, that CPM is ultimately not just about integration of functions but about transforming a corporation with performance leadership – giving people the tools and motivation to focus, grow and perform their very best.

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