EMPLOYEE PERFORMANCE MANAGEMENT

Performance Management Shouldn't Kill Collaboration

How to align goals across functions

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IDEA IN BRIEF

THE AMBITION
Leaders set broad corporate goals and want all functions to collaborate to achieve them.

THE PROBLEM
Performance management systems often use scorecards that encourage managers and employees to take an overly narrow, short-term view of performance that undermines collaboration. In scrambling to hit their numbers, people lose sight of larger goals and jockey for resources or credit.

THE SOLUTION
Institute a four-part performance scorecard that establishes shared goals on strategic targets while still holding employees accountable for delivering individual results. Each component should be weighted according to its importance in helping the company reach its strategic aims.

LEADERS AT TECHCO, a fast-growing maker of marketing analytics software (a real firm we've disguised for this article), faced a puzzling problem: Though the sales and installation teams were hitting all their targets, many new customers were seriously dissatisfied. Digging in, the executives discovered that while each department was measuring its teams' performance at their respective tasks, no one had any incentive to ensure that all the pieces fit together—that the software was customized to generate accurate analytics for each customer's complex, nuanced requirements and went live on time. As a result, customers were complaining loudly.

TechCo urgently needed to improve cross-silo collaboration—a solution that would also offer it benefits well beyond happier customers. Cross-silo collaboration, as we have seen in our research and advisory work with hundreds of companies over the past decade, can help organizations cope with a volatile competitive environment, innovate faster, and grow revenues. In one global bank we studied, for example, improved collaboration among specialists in branches (mortgage officers, investment advisers, data analysts, tellers) increased customer service scores by 8% and the branches' financial performance by 17%. When one consulting firm improved collaboration among its partners, its annual revenues rose 34%. Collaboration also boosts retention: Our studies show that new hires who get pulled onto others' projects and have people jump in to help on theirs are at least 65% more likely than more-isolated peers to stay long enough at the company to become productive and profitable.

The main problem at TechCo—a siloed approach to target setting—is one of the top barriers to collaboration, according to our research involving more than 8,000 senior managers in sectors ranging from biotech and banking to automotive, consumer products, energy, and law. When companies cascade their broad corporate goals down through the ranks, they often use scorecards that encourage managers and employees to take an overly narrow, short-term view of performance. In scrambling to hit their numbers, people lose sight of larger goals and jockey for resources or credit. That competitive dynamic contributes to stress and burnout.

There's a much better way to set goals and their related metrics. In this article we'll describe how and outline specific actions companies can take to shift their overall performance management systems toward boosting the collaboration they need.

ABOUT THE ART
The photographer and drone pilot Ilanna Barkusky uses her airborne camera to showcase track-and-field venues in a new way.

Common Mistakes That Undermine Collaboration

In organizations around the globe, we have found that performance management systems are often flawed in some or all of five ways.

Key performance indicators aren't focused on customer satisfaction. This was a crucial omission at TechCo. The company's sales reps were so fixated on getting deals signed to hit their individual revenue targets that they didn't accurately or completely document clients' needs. Often the reps glossed over the more-complex requirements and capability gaps to get the orders closed. TechCo's engineers then started working on detailed implementation plans, but the lack of clarity in the sales process caused customer confusion about the promised scope of work and functionality. What's more, because the performance of the engineers was measured by installation time, they were motivated to cut corners. Then, after the installation went live, TechCo's client service teams were left to clean up the mess.

That isn't unusual. Companies typically set broad, overarching, collaboration-dependent goals, like revenue growth or faster innovation, and then create myriad targets for functions and divisions and units that are based on the conventional wisdom that people should be held accountable only for outcomes they directly control. But these narrow goals cause employees to optimize their own results and not consider their actions' impact on other parts of the business. Systems that use them can pit groups against one another, motivate people to hoard staff or knowledge, create a culture of blame, weaken employee engagement, and leave customers unhappy and angry.

Incentives for collaboration are piecemeal. At one consulting firm the CEO set aside $80,000 for quarterly rewards to team leaders who worked across service lines. After three quarters, less than 10% of the pot had been given away, and he called us in for advice. The firm's mistake, we told him, was a common one: Rewards for collaboration are added on to the incentive system as an afterthought instead of being integrated into it. Because they aren't tied directly to the achievement of major strategic objectives, employees consider them to be peripheral and view them cynically. "It's total BS," a manager at the firm confided to us. "The whole system is designed to make us focus on hitting our individual numbers, and then a couple times a year they come out pretending that collaboration is really important."

Rewards are tied to input rather than output. At one global consumer-products company, brand managers were awarded bonuses for adding information about their successful marketing campaigns to a knowledge management database. When the results were unimpressive, the SVP of marketing turned to us for help. "We got dozens of posts," she told us, "but very few of them had enough detail, analysis, or insights to help others replicate the success." We see this kind of scenario all the time. Rather than motivating people to achieve a strategic goal like improving the effectiveness of a firm's marketing, input-driven metrics encourage them to game the system. People take shortcuts to secure the bonus and don't invest the time needed to genuinely collaborate.

Rewards for visionary goals are lumped together with those for short-term objectives. Many companies with big long-term ambitions—such as achieving a carbon-neutral footprint or using AI to create more-dynamic and resilient supply chains—struggle to get employees to take action on them. Their mistake is not separating rewards for them from those for more-tangible, shorter-term, easily quantified objectives.

Psychologists studying delayed gratification have long documented people's tendency to trade off large future rewards for near-term gains. People enjoy the frequent dopamine boosts they get from small wins. Moreover, managers tend to give out bonuses and raises for the more-tangible achievements. When we recently analyzed multiple years of compensation practices at several professional service firms, for example, we found that they all emphasized the importance of activities with longer-term payoffs, such as developing significant new thought-leadership areas. But while the firms collected data on the initiatives and included them in partners' scorecards, our analyses showed that they had zero effect on the partners' compensation. The firms didn't assign any weighting to those long-term outcomes, so the leaders ended up basing bonus decisions only on concrete wins that had near-term impact.

Cross-selling is confused with collaboration. Many companies award bonuses for persuading existing customers to buy additional products or services. The problem is that this encourages employees to look at customers in a purely transactional way (as opportunities to sell more widgets) rather than seek to understand their complex problems and then collaborate with colleagues to provide valuable holistic solutions.

Companies can avoid these five flawed approaches by adopting a four-part performance scorecard that establishes shared goals to encourage collaboration on strategic targets while still holding employees accountable for delivering individual results. Each component should be weighted according to its importance in helping the company reach its strategic aims, but we recommend overweighting the collective goals to counteract people's natural tendency to pay more attention to their individual metrics. To keep employees focused on what the organization truly values, each part should contain no more than a few goals.

To see how this works in practice, consider the scorecards that were created for functional executives, regional managers, and individual employees in TechCo's sales, implementation, and client service departments in the United States. (Similar scorecards were implemented internationally.)

COMPONENT ONE

Ambitious Cross-Silo Goals

Broad shared goals that focus on big challenges and can be achieved within a year help break down organizational silos and get teams working together across functions. Such challenges might involve things like halving the time to market for new products or doubling revenue from certain customers. When identifying them, it's often easiest to start with the customer, by asking what overall experience and result the customer wants. Another approach is to focus on a strategic outcome that will strengthen your company—such as diversifying its supply chain. After you determine which groups can influence the desired outcome, you should embed it as a goal in the scorecards for all of them.

At TechCo the leaders set a bold goal of increasing new-customer satisfaction ratings by 25% in 12 months. This was the primary component-one goal given to every executive, regional manager, and employee in the sales, implementation, and client service functions, and component one was the most heavily weighted (representing 40% of employees' bonuses) in the scorecards. To measure progress on it, the company not only surveyed customers twice a year but also tracked the volume of inquiries the client service team got—a leading indicator of quality—with an eye toward reducing them by 10%. The cross-silo goals motivated people in all three functions to look beyond their responsibilities and work together to find ways to improve the overall customer experience.

Employees at all levels were measured on the satisfaction of the customers they were responsible for: individuals, for the specific accounts they handled; regional department managers, for all clients in their own region; and U.S. functional executives, for all U.S. customers. (Goals in other parts of the scorecard motivated people to collaborate across geographies with counterparts in their own departments.)

The customer surveys highlighted the disconnect between the clients' business requirements and what TechCo actually delivered, which as we've noted began when the salespeople left the details of the contracts to be sorted out later. To address that particular problem, the leaders of sales and implementation jointly redesigned the order forms to document client requirements more granularly. Then they set up a formal client sign-off process to ensure that everyone was clear about the deliverables. Next the leaders of the implementation and client service teams agreed to get their people involved earlier in the sales process to uncover and resolve any potential gaps or misunderstanding about capabilities that might damage a client's perceptions of the final product.

The Scorecard: Component One

To focus everyone on increasing new customers' satisfaction, all employees in the three functions are given similar goals.

Weighting: 40%

		Individual contributors For all new accounts employees work on directly	**Regional managers** For all new customers in their own region	**Functional executives** For all new U.S. customers
Sales, Implementation, Client Service	CUSTOMER SATISFACTION RATINGS	Increase average ratings by 25%		
	CUSTOMER INQUIRIES SENT TO CLIENT SERVICE	Reduce volume by 10%		

COMPONENT TWO

Team Goals

Organizations need to break down barriers to collaboration not only across functions but also *within* them. Team members must share best practices and ideas, learn from one another, and work together to achieve collective targets. To encourage this, firms should measure team-level results and hold people accountable for raising the performance of their whole working group, whether it's a functional department, a key account team, or a product development team.

Take the implementation teams at TechCo. Previously, they had no department-level goals that would focus people on improving the quality and speed of all initial customer set-ups. Instead, each team was assessed on only its own projects. There was little motivation to exchange information and tips, which meant that work was frequently delayed while people reinvented the wheel.

In the new scorecards the performance of each individual on an implementation team was measured by the success of all projects within the region. Meanwhile, to keep regional managers focused on sharing best practices and collaborating with their peers in other regions, they were evaluated on the success of implementations across the entire country. In addition, because collaboration hinges on people's willingness to be creative and take some risks—a mindset that's hard to promote in burned-out, disaffected employees—the managers had to meet metrics tied to engagement. The intrateam component was given a 30% weighting, the second highest.

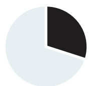
The collective goals promoted a sense of shared purpose among the teams. "Engineers across teams started helping each other more," the head of implementation told us. "They set up a community on our intranet so that they could exchange ideas about how to solve specific problems and started standardizing best practices that made the process faster. During Covid, when we had lots of staff shortages, they set up an SOS system so that they could quickly swap resources between customers. In the old system they would have hoarded their people for their own projects."

In a similar manner, the scorecards of U.S. functional executives included a metric for worldwide outcomes, motivating them to collaborate with their counterparts who led functions in other countries, and a metric for employee engagement.

The Scorecard: Component Two

To promote collaboration across geographic teams, individual contributors are held accountable for hitting their function's regional target, and regional managers and functional executives for hitting national and global goals, respectively.

Weighting: 30%



		Individual contributors For entire region	**Regional managers** For all five U.S. regions combined	**Functional executives** Across the company worldwide
Sales	SALES	$5 million	$25 million	$50 million
	PIPELINE OF PROSPECTIVE SALES	$20 million	$100 million	$200 million
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more
Implementation	PERCENTAGE OF FUNCTIONALITY AT "GO LIVE"	100%	100%	100%
	PERCENTAGE OF PROJECTS DONE ON TIME	95%	95%	95%
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more
Client Service	INQUIRY RESOLUTION (AVERAGE)	Less than 5 hours	Less than 5 hours	Less than 5 hours
	MONTHLY INQUIRY RESOLUTION (AVERAGE)	95%	95%	95%
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more

Well-designed individual targets help each person understand how his or her specific actions contribute to higher-level success.

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COMPONENT THREE

Individual Goals

Well-designed individual targets not only promote personal accountability but also directly connect to team and organization-wide objectives. They help each person understand how his or her specific actions contribute to higher-level success.

Let's look at TechCo's client service teams. Under the old system, individual help specialists had been evaluated just on how long it took them to resolve each client inquiry and how many inquiries each person completed in a day. Those metrics drove high productivity but not customer satisfaction. Service specialists had no incentive to address underlying issues such as poor data quality, which stemmed from the failure to modify the software for each customer's needs. The new system, in contrast, motivated the client service professionals—who had real-time, sometimes visceral perspectives on customers' experiences—to be more proactive.

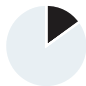
The company began by creating three task forces, drawing members from all three departments, to solve common problems that led to customer inquiries. One task force focused on improving data quality, another on increasing on-time implementation, and the third on using artificial intelligence to enhance operations. Each task force was led by a regional manager and sponsored by a functional executive from a different department, who coached the regional manager and helped the task force get resources. The scorecards of the individual members included a goal of proposing solutions to the problem each group was addressing. (The regional managers leading the task forces were accountable for implementing those solutions and were asked to reduce the number of inquiries related to data quality by 20%, increase on-time implementation by 30%, and introduce AI into three processes, respectively.)

The third part of the client service professionals' scorecards also included individual goals for their "day job" of handling inquiries from customers they were assigned to. (Giving everyone in a team personal targets related to the team goals is important to discourage free-riding and stop members from worrying that others won't do their share.) Altogether the component-three goals were weighted 15%. That was large enough to instill a sense of personal accountability while still ensuring collaboration on the higher-level goals.

The Scorecard: Component Three

Employees are individually accountable for achieving their part of shared goals. That includes helping tackle common customer problems by participating in cross-functional task forces. (Note: Under individual contributors, only goals for data-quality task force members are shown.)

Weighting: 15%



		Individual contributors For assigned accounts	**Regional managers** For region overseen	**Functional executives** For entire U.S.
Sales	SALES	$1 million	$5 million	$20 million
	PIPELINE OF PROSPECTIVE SALES	$4 million	$20 million	$80 million
	TASK FORCE	Propose solutions to reduce inquiries on two data-quality issues	Lead an AI automation task force	Sponsor a task force on data quality
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more
Implementation	PERCENTAGE OF FUNCTIONALITY AT "GO LIVE"	100%	100%	100%
	PERCENTAGE OF PROJECTS DONE ON TIME	95%	95%	95%
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more
	TASK FORCE	Propose solutions to reduce inquiries on two data-quality issues	Lead a report-timeliness task force	Sponsor a task force on AI automation
Client Service	INQUIRY RESOLUTION (AVERAGE)	Less than 5 hours	Less than 5 hours	Less than 5 hours
	MONTHLY INQUIRY RESOLUTION (AVERAGE)	95%	95%	95%
	EMPLOYEE ENGAGEMENT SCORE (OUT OF 5)	–	3.5 or more	3.5 or more
	TASK FORCE	Propose solutions to reduce inquiries on two data-quality issues	Lead a task force on data-quality issues	Sponsor a task force on report timeliness

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COMPONENT FOUR

Long-Range Programs

The first three parts of the scorecard lay out goals that can be largely achieved during a single annual performance cycle. To focus employees on longer-term, multidisciplinary initiatives, a fourth component is needed. Goals here might include developing white papers that showcase a company's cutting-edge ideas; sizable pro bono projects that draw on an array of capabilities and allow employees to stretch their skills; and significantly upping diversity at all levels of the company. Measuring progress on such long-term goals allows companies to factor work on them into compensation and promotion decisions. Moreover, the trusting interpersonal relationships the people who take part in these activities develop will strengthen future collaboration.

At TechCo leaders set a longer-term goal of entering a completely new customer segment within three years. The CEO tasked the three departments with creating a compelling proposition for this segment that they could effectively sell, implement, and service. The three function heads jointly selected a team of regional managers and individual contributors from the three departments to focus on that objective, choosing people who not only had diverse expertise but also would benefit from working on more-complex projects with other departments. The team members' scorecards included targets that could be achieved in the first year: completing a series of roundtable discussions with senior executives at firms that were prospective customers to glean an understanding of their unaddressed needs, the market segment's competitive dynamics, buying patterns, and so on.

To ensure that the task force didn't just go through the motions, its members were given targets related to the seniority of the roundtable participants (who needed to have deep knowledge of the market segment) and for those participants' post-event feedback about the roundtables' value. To make sure regional managers and functional executives assigned to the project followed through on what the teams learned during the discussions, the managers' targets included securing three prospective customers to help develop the new product, and the executives' targets included piloting the beta product with at least two customers. Everyone's goals in this section were given a 15% weighting.

The Scorecard: Component Four

Employees are also expected to invest time in projects that take longer than a year—such as an initiative to enter a new market segment. Here individual contributors lead the research process, and a regional manager and a functional executive are tasked with applying the findings with prospective customers.

Sales, Implementation, Client Service

Weighting: 15%	Selected individuals	Selected regional manager	One functional executive
ROUNDTABLE	Organize three roundtables of prospective customers		
ROUNDTABLE SURVEYS	Score 90% on surveys about roundtable value		
CODEVELOPMENT PARTNERS		Get three customers in new market to codevelop new capabilities	
PILOT			Pilot the beta product with two customers by year-end

Revamp Supporting Processes

To test the effect of differing performance-management systems on collaboration, one Big Four accounting firm ran two pilots. In one region it added collective goals to partners' key performance indicators. That led to an 8% increase in sales, in part because the firm cross-sold work to clients that had previously bought just one type of service. In another region the collective goals were paired with changes in related processes, such as a shift from annual to monthly performance discussions and training for leaders on how to coach their reports. The second region's results were far greater: Revenue climbed 30%, employee engagement scores hit a new high, and client satisfaction rose dramatically.

As these results show, companies must ensure they have the right processes to support new goals and incentives. Implementing the following practices will help.

Separate discussions about development and compensation. If you meet with your boss to discuss your annual bonus and your development goals for next year, which part of the conversation do you really focus on? For most people it's the bonus. So discussions of compensation should only address individuals' success in achieving the goals in their scorecards. Conversations about employees' professional development—their strengths and areas to improve, Forced-curved benchmarking against peers destroys collaboration. You can't expect coworkers who are pitted against one another to work together effectively.

the training and growth experiences they need—should take place in a separate meeting. Although scholars such as Peter Cappelli have long advocated for this bifurcated approach (see "The Performance Management Revolution," HBR, October 2016), many companies have yet to adopt it. Giving equal weight to financial outcomes and development underscores the importance of learning and growth. And a learning culture enhances collaboration by promoting employees' curiosity and interest in others' work, as research by Harvard Business School's Francesca Gino and others has shown.

Don't assign numerical ratings. People would rather hear "You're meeting, not exceeding, expectations" than "You're a 3 on a 5-point scale." In our work across industries, everyone from top executives to recent graduates tells us that being reduced to a number is demoralizing. Even worse is the practice of forced-curve benchmarking against peers. Studies have shown that it destroys collaboration because it's a zero-sum game. You can't expect coworkers who are pitted against one another to work together effectively. Rather than comparing people with their peers, managers should focus monthly and year-end development discussions on employees' performance trajectories: Are people growing, working effectively across silos, and increasing their impact not just individually but also as contributors to the broader organization?

Align the frequency of feedback with work milestones. Most companies have moved away from a strictly annual feedback process and have either implemented shorter cycles, perhaps providing formal feedback quarterly, or instructed managers to deliver it on an ongoing basis. A better approach is to link the cadence of feedback to milestones in work. For example, since a call center's workers have extremely short-term targets, such as for daily call quality, their managers should sit down with them for weekly reviews. With long-term goals, you can schedule feedback meetings at strategic interim milestones. At TechCo, for instance, where the long-term ambition was to enter a new customer segment, feedback discussions for individuals could be linked to the completion of half the prospective-customer roundtables.

Use creative rewards. No matter how successful people are, they crave recognition for their good work, and that doesn't always mean financial rewards. Consider the way the NASA@Work program encourages innovators across the government to generate breakthroughs and solve important problems. Winners are rewarded not with money but with incentives like a personalized astronaut autograph, a visit to the employee's department by NASA top brass, or an external shout-out on NASA's Twitter account. Organizations can also take this approach when recognizing team outcomes. The more leaders can embed symbolic rewards for great collaboration, the more their systems will foster a collaborative culture.

Discuss *how* performance was delivered. Two people can produce the same result in very different ways: One might be constructive and collaborative, and the other "me-first" and sharp-elbowed. The second person may hit his or her targets, but the collateral damage can be real. How often have you been in an organization where you asked, "How can a person like that get ahead?" Frequently, it's because the organization values only the *what* and not the *how*. You need room in your compensation model for manager discretion to reward people who live up to the organization's values and to penalize people who don't. Conversations with the latter aren't easy, so make sure the values are well understood and managers are trained to deliver tough messages.

TechCo's leaders realized they needed to do more than just change the performance scorecards. They trained managers how to give more-effective, timely feedback and provided tools such as pulse surveys that helped department leaders stay abreast of team sentiment. They also eliminated forced rankings and numerical ratings—a move that 72% of respondents in a company survey cited as a major signal of leadership's new focus on a collaborative culture. Employee engagement scores rose dramatically, people reported that the performance management process seemed to be more fair, and customer satisfaction scores reached an all-time high.

A WELL-DESIGNED PERFORMANCE management system, which aligns people across silos to achieve shared outcomes, is critical to increasing collaboration. When people start collaborating, the benefits for both business growth and employee engagement are dramatic.

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