CHAPTER 2

ALIGNING PERFORMANCE MANAGEMENT WITH ORGANIZATIONAL STRATEGY, VALUES, AND GOALS*

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In the 1970s, alignment was a major concern for me and thousands of drivers escaping for a weekend in Tijuana, Mexico. The road to Tijuana was pocked by hundreds of potholes that could swallow whole tires, leaving only two strategies: drive excruciatingly slowly while maneuvering circuitously around this moonscape, or step on the gas and hope to "hydroplane" over the impediments. Neither really worked, as evidenced by a plethora of auto alignment and body shops that dotted the entrance to Tijuana.

In the past two decades, the concept of "alignment" has taken off with fits and starts, much of the initial rally propelled by the quality movement of the 1980s and 1990s. Organizations like Volvo,

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American Express, Federal Express, WD-40 Company (WD-40), UPS, CIT, Caterpillar, and others have devoted considerable energy to ensure that there is alignment between their organizational visions on one hand, and important organizational outcomes such as employee productivity, retention and customer satisfaction on the other. And to ensure this, the leaders focus on a host of factors—organizational communications, balanced scorecards, employee goal setting and feedback, managing the right competencies and rewards, and achieving employee behaviors that give them an edge in strategy execution.

What is this phenomenon of alignment that seems to be so important to these and hundreds of other major organizations across the globe? And how does it help propel them to successful results? These questions will be the focus of this chapter, which addresses the strategic connection of performance management systems to organizational strategy and goals.

Alignment and Performance Management

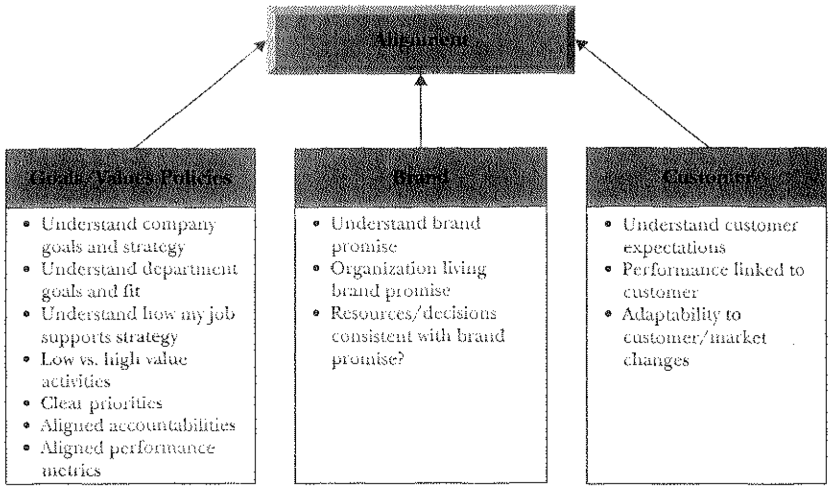
So what is "alignment," and how is it related to performance? There have been many different definitions of alignment. Nadler and Tushman (1997) and their colleagues were among early proponents of what they called organizational congruence, extending some of the early work by Katz and Kahn (1966) showing the theoretical importance of the connections of organizational inputs, throughputs, and outputs into a cohesive framework for managing overall organizational performance. Nadler and Tushman say, "Other things being equal, the greater the total degree of congruence, or fit, among various components, the more effective the organization will be," or essentially "the degree to which strategy, work, people, structure, and culture are smoothly aligned will determine the organization's ability to compete and succeed." Harold Leavitt at Stanford (Leavitt, 1965) and Jay Galbraith at MIT (Galbraith, 1977) were pursuing similar models of organizations that suggested there must be a good fit of various organizational components for the organization to be successful.

This early foundational thinking spawned other work such as that of Beer and his colleagues on organizational fit (1999), Kaplan and Norton on the balanced scorecard (1996), and Schiemann and Lingle on strategic alignment and performance measurement (1999). For example, Kaplan and Norton (1996) introduced the concept of the balanced scorecard in the 1990s to help show the importance and need to balance four different organizational elements: financial, external (for example, customers), internal learning, and operations. Schiemann and Lingle (1999) extended that thinking further by adding two additional scorecard elements (people and environment) and a way to connect the elements of the model in a cause-effect value chain (or value map). This was followed similarly by Kaplan and Norton with a related mapping model (2004). An example of the value mapping model will be illustrated later in the chapter. While holistic, many organizational applications of these models have focused on using the strategic scorecard (and/or strategy map) as a focal point for connecting business or functional goals to unit, team, or individual goals.

Another important use of the concept of alignment is with respect to the connectedness of interdependent business processes and work groups, often referred to as "horizontal alignment." Much of this work sprang out of the quality movement and process re-engineering. It frequently addresses the extent to which work units are effectively connected with each other to deliver high-value products or services to customers. Just as with the automobile, high alignment means less organizational wobble or drag.

For purposes of this chapter, alignment is defined as *the extent to which employees are similarly connected to or have a consistent line of sight to the vision and direction of the organization and its customers, often encapsulated within its current strategy*. This would include three elements (see Figure 2.1): (1) the line of sight of employees' behaviors and results with unit, department, and overall organizational goals; (2) the line of sight to customers' needs and expectations; and (3) behaviors that are in sync with the organization's brand.

Figure 2.1 Alignment.



How Important Is Alignment?

In order to understand alignment most broadly, I examined published and unpublished research, the practices of some purportedly stellar organizations, and published accounts of alignment in action. To better understand the practitioner viewpoint, I also interviewed over forty executives from a variety of industries, geographies, and senior roles (for example, CEOs, COOs, CHROs, and VPs of learning) to obtain their viewpoints on alignment, ranging from the critical success factors to what works and doesn't work in practice.

While none of the senior executives I interviewed and researched regarding alignment thought it was easy, they all described its importance in various ways. GE assumes alignment as a prerequisite for success. Robert Nardelli, in speaking to the Executive Club of Chicago while he was CEO of Home Depot, said that alignment was his core responsibility, and he went on to explain that this responsibility extended to the alignment of strategy, values, customers, employees, and communities. Valerie Norton, the former first vice president of talent management for New York Life, said that it is hard to set a learning agenda if you don't have clear goals and an understanding of the competencies required to support them. At FedEx, alignment is viewed as critical to attracting the best employees at all levels of the company. "We find that we've got to treat our employees as customers," said Bill Margaritis, senior vice president of global communications at FedEx (Pellet, 2008).

Alignment is not just an issue for large corporations. For example, in the fewer than four hundred employee company WD-40, CEO Garry Ridge, says "Having people aligned with your vision and strategy is imperative." Henry S. Givray, chairman and CEO of SmithBucklin Corporation, the world's largest association management and professional services firm, stated that the most important alignment involves cultural values: "If people share the same values, their organization can pursue any strategy successfully." Connie Rank-Smith, VP of HR for Jewelers Mutual Insurance Company, told me that "Alignment is crucial regardless of firm size." At the time, they had about 185 employees.

Are these wishful views from the top? Do they have any research support? In our search for sound research in this area, we did not find many controlled studies. However, the research and case examples that we did find strongly supported the connection of alignment to important business and personal outcomes.

For example, in a climate study conducted by Six Seconds Institute for Organizational Performance, Pomeroy (2005) reports that research scientist Fiedeldey-Van Dijk found that 47 percent of the difference between low and high customer service scores is predicted by alignment, accountability, and collaboration. For retention, 43 percent of the difference in low versus high retention is predicted by alignment, leadership, and collaboration (Pomeroy, 2005).

A study of an Australian apparel firm (Kantabutra, 2007) found that organizational alignment was a clear factor in driving customer and employee satisfaction. Communication of the vision, coupled with employee empowerment, were important factors in creating employee satisfaction and a direct correlate of customer satisfaction.

Jack in the Box, the 40,000+ employee quick-serve restaurant group, found that alignment was significantly correlated (.38) with people's intention to leave (a good predictor of actual turnover), and that, in turn, was significantly correlated (.33 and .38, respectively) with sales and profit. Even more impressive were the connections of alignment with employees' discretionary effort (.75). And discretionary effort, despite other intervening variables, such as market differences, was significantly correlated (.36 and .44, respectively) with sales and profit.

In a study the Metrus Group conducted among fifty-six hospitals, alignment was significantly correlated (.23) with EBITDA (earning before interest, taxes, depreciation, and amortization). And in another study conducted by Metrus (Kostman & Schiemann, 2005) with the American Society of Quality that included approximately two thousand organizations, the authors found that, of the firms that were in the top quartile on alignment, 64 percent were in the top third in financial performance, compared to the bottom alignment quartile, of which only 41 percent were in the top one-third in financial performance.

Another way to look at alignment is in terms of the negative consequences of being misaligned. The list below summarizes a range of consequences of low alignment from theory, practice, research, and interviews with senior leaders.

The Business Impact of Low Alignment

- Confusing brand promise
- Many urgent but not important activities
- Non-competitive costs due to low productivity resulting from misdirected activities or talent
- Burnout—working hard, but not smart
- Overstaffing, to compensate for time lost on low-value activities
- Slow strategy execution
- Low teamwork; high conflict across interdependent units
- Talent loss
- Low customer satisfaction/loyalty

When alignment is low, there are many cited effects on employees, employers, and customers. One of the most insidious outcomes of low alignment is wasted time and energy. When individuals (or teams or units) are not well aligned with the vision, organizational goals, or what customers need and want, extra energy is required to reach the goals because time is often diverted to low- or no-value-added activities. This not only reduces the impact on results, but is also frustrating to the individuals (or teams) involved because they may feel that their efforts are not creating success—either a lack of accomplishment or that they are struggling to hit key goals after expending considerable effort. This often creates stress (related to work-life balance; perceptions of time wasted) and other dysfunctional outcomes, ranging from poor performance to turnover.

In fact, LifeCare Inc. found that the single biggest barrier to on-the-job productivity last year was being "overloaded" with work, according to a majority of workers polled by them (Leading productivity killers . . . , 2008): 39 percent of all workers said they simply did not have enough time to accomplish all of their assigned tasks. This overload is certainly a misalignment of goal expectations with employees' perceived ability to accomplish those objectives and/or a lack of clarity about job expectations, which 12 percent of their polled workers reported.

Furthermore, a survey by Watson Wyatt found that 48 percent of U.S. employers say stress caused by working long hours is affecting business performance. It can also harm retention rates. According to Watson Wyatt (2007/2008a), stress is the most frequently cited reason U.S. workers give for why they would leave a company; 40 percent cite it as one of their top reasons, but employers don't list stress among the five most common reasons they think workers leave (Watson Wyatt, 2007/2008b).

Hence, there is strong evidence that alignment can drive good or bad performance, and to listen to most of the leaders interviewed, it is a key factor for success, which raises the question: What drives high alignment?

What Drives Alignment?

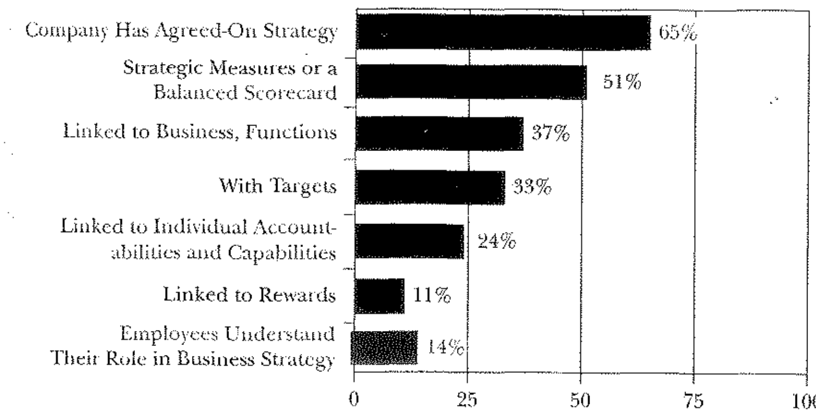
Based on the literature review, case studies, and interviews with senior practitioners, we have identified seven important success factors that distinguish effectively aligned organizations. For each success factor, I will share what was learned from a combination of published research, practitioner experience, identified best practices, and available survey research data. Because of the proprietary nature of many survey research practices, I will draw on a large database from the Metrus Group, which contains questions related to alignment and performance management. The seven drivers of high alignment include:

1. A clear, agreed-on vision and strategy
2. Translation of the vision and strategy into clear, understandable goals and measures
3. Acceptance, or passion for, the vision, strategy, goals among those who are implementing them
4. Clarity regarding individual roles and requirements in supporting the strategic goals—and the extent to which these have been effectively cascaded and interlinked across the organization
5. Sufficient capabilities (talent, information, and resources) to deliver the behaviors needed to reach the goals
6. Clear, timely feedback on goal attainment and the drivers of those goals
7. Meaningful incentives to encourage employees to develop or deploy sufficient capabilities to achieve the goals

Furthermore, there was considerable evidence from a variety of sources that culture is also an important overall ingredient in the alignment recipe. Because of its more general influence, I will address culture after addressing the seven more specific drivers.

One interesting discovery is that these elements do not appear to be compensatory, although I did not find any strong research studies that focused on all of these elements. But from a logical standpoint, it is hard to imagine that excelling on feedback alone, for example, yet not understanding the strategy, will help drive performance (except perhaps in the wrong direction). In an informal study we conducted over a series of Conference Board audiences (mostly VPs and directors) regarding the above elements, we found that each of the individual success factors was not very predictive of managers' ratings of how well their employees understood their business strategies (see Figure 2.2).

Figure 2.2 Why Strategies and Behavior Disconnect: Percentage of Rater Agreement.*



*The percentages represent the cumulative agreement of raters for each element and for the ones above that element.

But interestingly, when we look at the *cumulative* agreements that their organizations did a good job of each of the above elements, we could accurately account for their ratings of employees' understanding of their business strategy. For example, while many of the success factors (for example, agreed-on strategy and rewards linked to performance) were present in one-quarter to two-thirds of the respondents, only 14 percent of organizations reported that their employees had a good understanding of their strategy and direction. So we looked at the cumulative knockout effect, and it helped to explain this finding. For example, if only two-thirds of VPs and directors said their senior leadership teams agreed on the business strategy, we took that as an upper limit for how many organizations could have employees who then understand the strategy. Of those organizations with senior agreement, which of those had done a good job of translating it to measurable objectives, of cascading it, of setting clear goals, of rewarding employees and so forth? When you look at it that way, only 11 percent of the organizations have all of the above factors working for them to create a clear line of sight from employees to the strategy. This number is quite close to the 14 percent who reported that their employees really understand the strategy and its implications for them.

With that said, we did not conclude that the remaining 90 percent or so were flying totally blind. Jerry Seibert, the director of assessment for Metrus Group, reports that across 100+ companies in Metrus Group's current database, approximately two-thirds of employees believe they receive clear direction from senior leaders—interestingly, this is the same percentage that we found of VPs and directors who believed that senior leaders actually have an agreed-on strategy—"with some organizations having only one-third of employees who report understanding it." He adds that understanding of goals appears stronger the closer you go to the employee's unit or department, with typically four-fifths of employees reporting understanding of their department goals.

The question is whether the local goals and knowledge are highly aligned with senior leadership or not. In many cases, goals are set based on past performance expectations, reactions to market and management demands, or a "best try" basis. But that is a far cry from truly understanding and engaging in the organization's future mission. In our interviews, we have heard too many managers lament that their people are "working hard but not smart," sadly in a context of concerns about sufficient future talent.

We concluded from this and other cases that these seven drivers must be part of an integrative package, as cases such as WD-40, GE and SmithBucklin (to be discussed later) have demonstrated.

Let's take a look at each of these success factors:

1. A Clear, Agreed-On Vision and Strategy

While this may seem self-evident, reality suggests that it isn't. Despite its discussed importance, there is often little agreement on what vision is and how it should be formulated. Vision is frequently confused with or combined with mission, goals, strategy, values, and organizational philosophy (Kantabutra, 2007). Our research with over five hundred VPs and directors from Conference Board audiences suggests that nearly one-third of organizations (reported by VPs and above) do not have a clearly agreed-on strategy.[1] How can this be the case?

The reality, based on our interview results, is that many organizations have multiple strategies lodged in the minds of different executives. For example, a number of years ago I was asked by the CEO of a major media giant to assess how well his executives were executing their new strategy. Sadly, I had to report back that I had heard eleven different strategies articulated—and there were only fourteen members on the senior leadership team!

While some organizations do not have a strategy, the more insidious problem is that strategy often means different things, depending on which seat you occupy at the executive table. As one interviewed leader said, "If they are not on the same page, the ripple effect throughout the organization is enormous." If top management is not in agreement on the strategy and goals, then alignment throughout the organization is not possible.

How does this happen? In addition to the problem of competing strategies, our interviews and case histories also reveal that part of the confusion stems from the way in which strategy is addressed at the top level. One retired financial services executive put it succinctly, "The leadership team agrees on broad strategic principles at the 50,000-foot level, but often fails to drill down to the level at which real tradeoffs need to be made."

In our strategic advisory work, for example, we have seen many leadership groups endorsing statements such as "We will be the most admired brand" or "We will be the most customer intimate," but then fail to drill down to the level at which resource tradeoffs and tactical priorities occur. Does customer intimacy mean that the company will forego some less customer-intimate, but more cost-effective, processes? Does "most admired" mean by customers, employees, communities, Wall Street, or all of the above? And how will that be operationalized? The failure to effectively drill down far enough results in functional silos defining their own strategies that are aligned in name but not necessarily in meaning.

2. Translation of the Vision and Strategy into Clear, Understandable Goals and Measures

While agreement is a necessary first step, a great vision or strategy that is locked in the CEO's drawer is not likely to have much impact on behaviors or impact on customers or competitors.

That is exactly what we found when we interviewed leaders for a global cement company. Members of the leadership team described a clandestine meeting in the Pocono Mountains at which the strategy was revealed by the CEO. Despite having little input to the strategy, team members were expected to go out and execute it. Only one small problem. They needed great memories because after the get-away meeting, the strategy was literally locked in the CEO's drawer. When we confronted the CEO about this, he pulled out the key, opened the drawer, and held up the strategy, proudly refuting our challenge that his company might not have one. He bellowed, "We have a great strategy, but we cannot let anyone see it." We asked why, and he spouted, "If employees know, the unions will know it, and then our competitors will know it." When we asked him how it would be effectively executed if people—especially his top team—did not understand it, he replied, "I have divided elements of it on a 'need to know' basis." This approach hardly ensures that the entire team is rowing in the same direction.

The employees of this company are not alone. According to Ventana Research (Smith, 2008), only about half (52 percent) of companies do a good job of aligning departmental plans with overarching corporate goals. The "keep them in the dark" approach also flies in the face of increasing cultural expectations of transparency and candor. Henry S. Givray, the chairman and CEO of SmithBucklin, the world's largest association management and professional services firm, said it best. "Transparent communication and decision making with employees and with client organizations inspire engagement and trust—which are the building blocks for achieving sustainable growth and success in any service business." While the "secret strategy" approach of the cement mogul prevented his employees from divulging the strategy to competitors, it also prevented them from playing a meaningful role in implementation.

When examined from the viewpoint of the average employee, a look at the Metrus Group database revealed that, on average, only 66 percent of employees in 119 firms give management favorable ratings on clearly communicating the vision, direction, or strategy of the organization. And these numbers are probably more favorable than the total population of firms, given that these 119 organizations represent those that conduct regular surveys of their people—arguably a more enlightened cohort than the average company.

Some companies have made considerable progress in communicating the overall strategy. For example, Volvo with its 92,000 global employees has grown from a baseline level of 67 percent to 84 percent of employees understanding their overall strategy and direction (Nordblom, 2008). Much of this was attributed to a concerted effort to increase the capabilities of their middle managers through more effective communications tools. Despite these strengths, they state that their "key challenge is clearly the ability of supervisors to translate and break down overall strategic objectives into goals and targets that are meaningful to each individual."

3. Acceptance, or Passion for, the Vision, Strategy, Goals Among Those Who Are Implementing

While understanding an agreed-on strategy is a foundation, people must also embrace it. We recently completed an employee survey for a New York headquartered global financial services organization. We tested for exactly this. Employees in North America, Europe, and Asia all demonstrated increased understanding of the business strategy—a key problem noted on the prior year's survey. And while North America largely accepted and supported the vision, employees in Europe did not. Essentially, they got it, but didn't embrace it. From the performance results of Europe, it was clear that this organization had the minds but not the hearts of its European employees.

Henry S. Givray, chairman and CEO of SmithBucklin, put it succinctly: "We could not have achieved the incredible results that we have without securing both the hearts and the minds of our employees." When we were doing work for Wal-Mart a few years ago, a woman came up to me seeking a private meeting. When she cornered me in the hall, she described how she had worked at Nordstrom in the past and how "they really understand service." She went on to describe how she was building a covert operation of "service trekkies" who would help employees of Wal-Mart eventually "get it." While she was obviously passionate about her mission, it was not the strategy of Wal-Mart. Their strategy is built on operational excellence leading to low prices; in contrast, Nordstrom's has been built on outstanding service leading to customer intimacy. In Mr. Givray's view of mind and heart, she would be labeled as "right person—wrong fit."

4. Clarity Regarding Individual Roles and Requirements in Supporting the Strategic Goals—And the Extent to Which They Have Effectively Cascaded and Interlinked Goals Across the Organization

This is an area that has been well researched, with some outstanding early work done by Locke and Latham (1990) that demonstrated some critical components that drive performance. One of those factors was goal clarity. Early experiments concluded that those with clearer and more difficult (but attainable) goals had better performance results.

But clear goals alone are not enough. In order to deliver high organizational performance, human resource management practices have to be aligned to corporate strategy (Nel et al., 2004; Thomson, 1999). In setting goals, "The most effective practice is to establish a hierarchy of goals where each level supports goals directly relevant to the next level, ultimately working toward the organization's strategic direction and critical priorities" (Pulakos, 2004).

Research also reveals that two other factors are important: employee acceptance of goals and the number of goals. Pulakos (2004), for example, states that "Goals should be set in no more than three areas" based on her review of goal-setting research. Too many goals at once impede success.

It is also important to periodically (for example, quarterly) reexamine and update goals when changing circumstances demand. Flexibility is a key ingredient of successful goal setting. Goal setting also includes the development of an action plan to accomplish goals. This holds the employees accountable for both accomplishing goals and how they go about doing so.

The trend is away from a more directive mode—"Here are your goals"—to a more collaborative goal-setting process. What is evolving is the management of performance through value contribution—the amount of value the subordinate's performance adds to the overall organizational performance. The traditional way of managing performance by measuring whether the employee has achieved prescribed objectives seems no longer adequate.

In reviews of employee survey databases at Metrus Group for the past twenty years, goal setting is more effectively implemented than feedback. In 104 organizations that we studied recently, 76 percent of employees agreed that their performance goals are clear. In reviews of a number of variations in how this question is worded, an average of 70 to 78 percent of employees believe that they have clear goals. However, there are a number of organizations in which fewer than 50 percent of employees say they have goals, or goals that are linked to the department or company goals.

In contrast, when they were asked about feedback and coaching, the favorable responses are lower. For example, for the question "I receive regular feedback from my supervisor," 67 percent of employees in sixty-nine database organizations agree; however, when employees are asked if they received feedback that helps them improve performance, the percent who agree drops to 64 percent, with organizations scoring as low as 38 percent.

A contrasting viewpoint (Clutterbuck, 2008), not yet sufficiently tested, argues that too much emphasis is placed on early, rigid goal setting and that, in reality, business (and life planning) is too complex for those goals to remain fixed. Instead, they advocate a more evolutionary approach to goal setting, that allows goals to "jell" over time while also incubating more commitment from the goal owner. The challenge with this approach might be the duration of the time in which the organization is adrift and unaligned. This approach might be most effective for organizations requiring frequent changes in goals or for units in which innovation is a dominant requirement, and early structure might hinder innovative outcomes.

5. Sufficient Capabilities (Talent, Information, and Resources) to Deliver the Behaviors Needed to Reach the Goals

While alignment captures the notion of focus, it will be difficult to deliver on those goals (and their measurable targets) without developing the right talent (for example, knowledge, skills, and abilities), information, and resources. This is the fuel in the alignment engine that enables the most effective priorities—behaviors, actions, initiatives—to be successfully carried out. General Electric provides compelling evidence that such investment in human capital pays off (McNamara, 1999).

A great example of the importance of sufficient capabilities was driven home to me during an engagement with a regional U.S. bank.

> The bank that I worked with had developed an exciting new strategy to gain an increased share of its customers' wallets—the percentage of their customers' total financial services spend across the bank's range of financial services. The approach was to consolidate customer contacts to one loan officer in each branch, so he or she could become more customer intimate, truly understanding the breadth and depth of individual customers' needs. This would enable the bank to customize their offerings for each customer, which would make this bank more valuable to those it served. For the bank, it offered opportunities to cross-sell products with minimal additional expense. Focus groups with loan officers and customers said it was a great idea.
>
> After extensive training of loan officers and much hoopla, the initial rollout fizzled. Customers actually threatened to leave, as did "red in the face" loan officers. While an important part of capabilities is talent, it was information that sank the ship. When customers came into a branch, the IT system would not allow loan officers access to information on bank relationships that were initiated at other branches. Customers wanting to discuss small business loans, equity lines, mortgages, or other business with an officer could not do so without taking a time-wasting detour both to the past and to multiple locations.

Having high capabilities requires having not only the right talent or skills—the "usual suspects" when things go awry—but also the right information and resources at the moment of truth for the customer.

6. Clear, Timely Feedback on Goal Attainment and on the Drivers of Those Goals

As discussed above under goal setting, clear goals are not enough to achieve the best performance. Research has shown that those who receive more frequent and specific performance feedback and coaching are better performers than those who do not (Locke & Latham, 1990; London, 2002). These researchers have shown that feedback that is closer to the performance itself is most effective. Some organizations that are quite good at setting goals are often weak on performance feedback or coaching. This is often a function of the formality of the goal-setting process versus the informality of the feedback process. While roles such as sales representative often have structured feedback (often monthly or weekly with attendant rewards), other roles have feedback that falls short of the principles of good feedback. Such feedback:

- Comes late in the performance cycle, well after people are invested in their performance or at a stage when changes will not have much effect on results
- Is diffuse and subjective
- Is primarily a judgment, dependent on the views of different stakeholders
- Is provided in a context of other motivators (such as financial rewards)
- Conflicts with the perception of the person whose performance is being evaluated

DeNisi and Kluger (2000) elaborate on some of the reasons why feedback is not as effective as often assumed. And, according to Du Plessis, Beaver, and Nel (2006), providing feedback and coaching at quarterly reviews during the year is better than surprising employees with shocking performance ratings at the end of the year when it is too late for any corrective action. Nearly all of the research and customary wisdom suggest that the appraisal and reviews should be conducted in a non-threatening manner and that continuous discussion rather than an infrequent formal review is more effective. While historical wisdom suggested that the conversation should focus on gaps and developmental activities to close the gaps, others such as Buckingham and Coffman (1999) suggest that the conversation instead should be focused on leveraging strengths. Their position is that individuals rarely are willing or able to close talent gaps.[2]

DeNisi and Griffin (2001) report that most managers are unhappy with various facets of performance appraisals and therefore performance management; nevertheless, they still agree that such appraisals are very important. They provide a benchmark for organizations to better assess the quality of their recruiting and selection processes to recruit only the most appropriate employees. They also play an important role in training and development to help employees to improve their performance.

7. Meaningful Incentives to Encourage Employees to Develop or Deploy Sufficient Capabilities to Achieve the Goals

There has been considerable research conducted on reward and incentive systems, from basic operant conditioning experiments with piece rate payouts to more holistic reward systems like Scanlon plans that reward the collective accomplishments of groups of employees, originally developed to increase productivity in manufacturing plants. While there has been considerable focus on individual incentive and rewards systems, others argue that linking compensation to a company's performance is beginning to make sense for more and more businesses (Gibson, 1995). A compensation system based on enterprise success allows everyone to share the organizational success and see how their performance contributes to the whole (Fitzgerald, 1995).

Rewards in various forms—bonus plans, recognition, the job itself, and incentive systems—have all been shown to be more or less effective in different circumstances. Much of their effectiveness has been contingent on the ability to link individual or team performance to meaningful rewards and to provide those rewards in a timely fashion.

Rewards have been shown to be more effective when administered close to performance. Sales positions are notorious for tightly linking pay to performance. It should also be said, however, that sales individuals may value pay and incentive systems more than some other groups of employees, such as research and development.

When employees believe in the performance measures and accept the reward systems, then their performance can be enhanced. However, critics say that merit plans often have many defects and that employees are often skeptical that pay is really linked to performance (De Cieri et al., 2003; DeNisi & Griffin 2001; McGinty & Hanke, 1989; Meehan, 1992). And to make matters worse, Longenecker, Sims, and Gioia (1987) provide evidence of deliberate distortion or manipulation for political or other purposes.

Much of the work of Hackman and Oldham (1980) focused on the job itself as a reward, and appropriately they set out to research the critical factors that drive more rewarding jobs, such as task variety or complexity. While there has been much research in this area, often conflicting, it is fair to say that the job itself can be highly rewarding for some groups of employees and certainly more so for certain individuals. This means that organizations that are able to offer more flexible, tailored-to-the-individual reward packages are more likely to reap the benefits of the reinforcing effect of rewards on performance.

Another issue of debate is the level of specificity of the goals and rewards. While Locke and others argue that the more specific one is in identifying the specific behaviors and results desired, the better the chances are of seeing those results; still it begs the question of whether the organization really understands all of the specific behaviors that are needed to achieve broader, more strategic results, such as better cost of goods sold, profitability, and other broader organizational outcomes.

A few years ago, in working with a global medical diagnostics firm, we observed a phenomenon of sales plummeting in December, causing this firm to miss forecasts repeatedly. When we conducted focus groups with sales reps, the phenomenon was easy to understand. The reward system only paid handsomely for target results; there were minimal incentives for extra achievements. This resulted in salespeople holding back their closes until the beginning of the next year, thus getting a head start on their next payout cycle. The company got what it rewarded, not what it wanted at the broader financial level.

Recognition was another frequently mentioned component of the entire reward structure. In looking at employee survey results from both the Metrus and publicly available databases over the past thirty years, I found that recognition is often rated as important to employees, but appears to be underutilized in many organizations. The average organization in the Metrus database obtains only 46 percent endorsement of the question: "I am regularly thanked or recognized when I do a good job." A number of organizations scored lower than 30 percent on this item, while some firms show scores as high as 79 percent favorable. This form of reward scores lower than financial rewards (typically 50 to 60 percent favorable) and the job itself (typically 70 to 80 percent favorable). Hillgren and Cheatham (2000) identify important steps required to effectively link rewards to objectives.

Impact of Culture

In launching the discussion of these seven key success factors, I previously noted that culture has been identified as a more general or foundational driver of alignment and performance by a number of leaders interviewed, in particular among a few of the most successful firms. Henry S. Givray, chairman & CEO of SmithBucklin, was perhaps the most vocal about the criticality of the "right" culture. When he thinks about alignment, he thinks first about the alignment of people with values. "While the mission and goals may be the 'brains' or rational side of alignment, a company's cultural values are the 'heart' of its long-term success and endurance." He was quick to point out that people who are not aligned on values will have difficulty working together on any mission. But "even executives who have different operating styles can overcome those differences if they share the same vision and values."

Garry Ridge, the CEO of WD-40, is also passionate about culture. He speaks and lives by the values he espouses. He answers his own phone, returns e-mails in twenty-four hours (usually much faster from my experience), offers a daily e-mail thought to all employees (always upbeat and inspirational), provides an update on the business weekly, and is ready to address any violations of cultural norms quickly. According to others in the organization, he sets the standard and does not expect employees to do anything that he would not hold himself accountable for. The company's performance management system is solidly based on values of shared accountability for results, teamwork, open communication, and action. Managers also share accountability for bringing up new employees to top performance levels. WD-40's incentive systems and high revenue-to-employee ratio (low overhead) require that each employee pull his or her weight.

WD-40's corporate values (see below) were employee-generated through a process that engaged many employees. The senior team also generated a set of overarching principles that govern how employees should behave, reducing the need for many detailed and narrow rules and policies. When difficult situations occur, or decisions are made, the leadership team uses the principles as a template to ensure that action is consistent with values.

WD-40 Company Corporate Values

- We value doing the right thing.
- We value creating positive lasting memories in all of our relationships.
- We value making it better than it is today.
- We value succeeding as a team while excelling as individuals.
- We value owning it and passionately acting on it.
- We value sustaining the WD-40 economy.

The success factors that have been discussed here represent the biggest issues that this author has seen from research and practice, but there are many others covered in a variety of reviews (DeNisi & Kluger, 2000; Smither, 1998), as well as in articles conveying the how-to steps of creating and using a performance management system (Beatty, Baird, Schneier, & Shaw, 1995; Cardy, 2003; Fisher, 1997; Grote, 1996; Mohrman, Resnick-West, & Lawler, 1989; Weatherly, 2004), although many focus most specifically on the performance appraisal process.

Let us now take a look at the entire process of linking organizational vision, strategy, and goals to behaviors.

Outreach Airlines: From Strategy to Results

I have selected a combination of two U.S. airlines, Southwest and Continental, to illustrate how these seven elements, as well as culture, come together.[3]

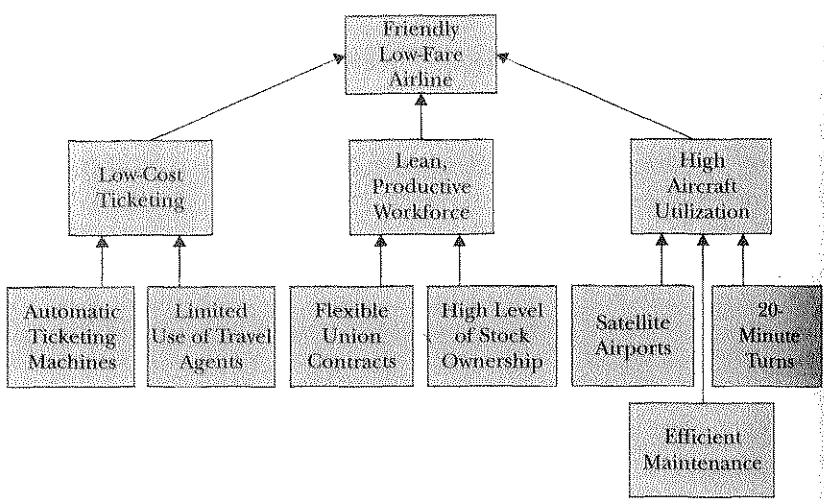
Clear, Agreed-On Strategy

When Southwest decided to challenge the historical airline business model, it identified several strategic assumptions or pillars (see Figure 2.3) that, if executed well, would allow the company to outmaneuver long established rivals, resulting in greater profitability. Three of those pillars included:

- Leveraging of aircraft—a major cost in the airline business—more effectively than their competitors by creating faster turnaround of planes, operating from less congested airports, and standardizing repair and management of aircraft by utilizing all Boeing 737s
- Creating a lean, productive, and flexible workforce, partly through high ownership programs and flexible union contracts
- Reducing ticket costs by avoiding the travel agents usage and on-line vendors

These pillars represent the unique value proposition of the business. The test, of course, is in the execution. The pillars needed to be understood and supported by employees (and suppliers) at all levels.

Figure 2.3 Airline Strategy Pillars.



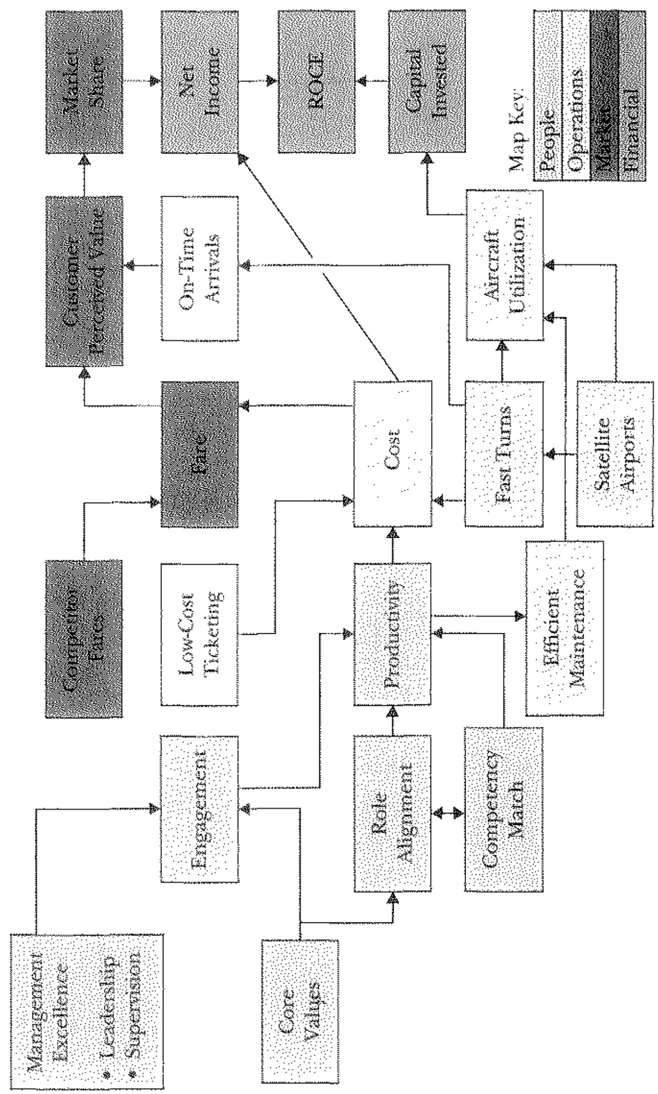
Translating Strategy to Measures

Whether it is the strategy of Southwest, Continental, or Singapore Airlines, successful organizations translate their strategies into a critical few areas that must be managed well. Kaplan and Norton (1996) and Schiemann and Lingle (1999) have demonstrated the importance of using balanced or strategic scorecards that capture the critical strategic results and drivers (for example, market share, on-time performance, high productivity) that reflect the value proposition—the strategic pillars—of the business, as well as the measures of those concepts. Measures provide a quantitative way to determine how much of a particular concept (for example, on-time flights) is occurring; targets provide a desired amount of that concept (for example, 85 percent on time). While measures in general can be motivating in the short term, targets provide more focus and sustainable energy, especially if they are stretch targets over more than a single budget cycle (Schiemann & Lingle, 1999).

In the airline example, pillars such as those shown in Figure 2.3 can be more fully developed into scorecard maps (see Figure 2.4) that capture the value proposition of the business. Typically, these scorecards (and maps) contain the critical financial, customer, operational, employee, community, and environmental (for example, regulatory safety) factors that are essential to implement the pillars. Schiemann and Lingle (1999) discuss the process and roles of consultants and leadership teams in creating such maps in their book *Bulls-eye, Hitting Your Strategic Targets Through High-Impact Measurement.* Says John Lingle: "The process is not very time-consuming; but it requires strategic thinking and a good cause-effect mindset." He has honed his process to convert a good strategy into a scorecard and map in about one to two days of time with the leadership team. "Of course," says Lingle, "this assumes that the leadership team has a clearly defined strategy. Otherwise, we have to back up and cover basics."

The benefits shown by Schiemann and Lingle (1999) and Kaplan and Norton (2004) of such maps are that they display the relationships of the strategic concepts, including both strategic results and drivers of those results (often referred to as critical success factors). For example, "high return on capital invested"

Figure 2.4 Strategic Value Map.



(ROCI) in Figure 2.4 represents a desired result, while faster turnaround of aircraft, on-time performance, and maintenance that allows the planes to stay in the air more are drivers of ROCI. In Figure 2.4 you can see the cause-effect link, with downstream results displayed on the right and upstream drivers displayed to the left, and the expected cause-effect connections shown by the arrows connecting the different elements.

Each of the elements in the model has a corresponding measure. For example, on-time performance could be measured by the time the plane leaves the gate against the published departure time, by the "wheels down" time or the gate arrival time against the published arrival time, or other possibilities. The important thing is that everyone understands what "on time" means, and when defined clearly, measures provide the specificity needed to describe what "on time" means, how it will be assessed, what current performance (baseline) looks like, what future success should look like (targets), and who is accountable for making that happen.

The advantage of identifying these scorecard elements is that this model provides a blueprint and rallying point for performance. In Gordon Bethune's case, one reason Continental Airlines went *From Worst to First* was the strong commitment to on-time performance. He and his leadership team believed that almost all employees could rally around the on-time goal because so many different roles had an impact on it: logistics, pilots, flight attendants, gate agents, maintenance, and baggage handlers, among others. This measure served to unify for the different functional groups that were essential to good performance.[4]

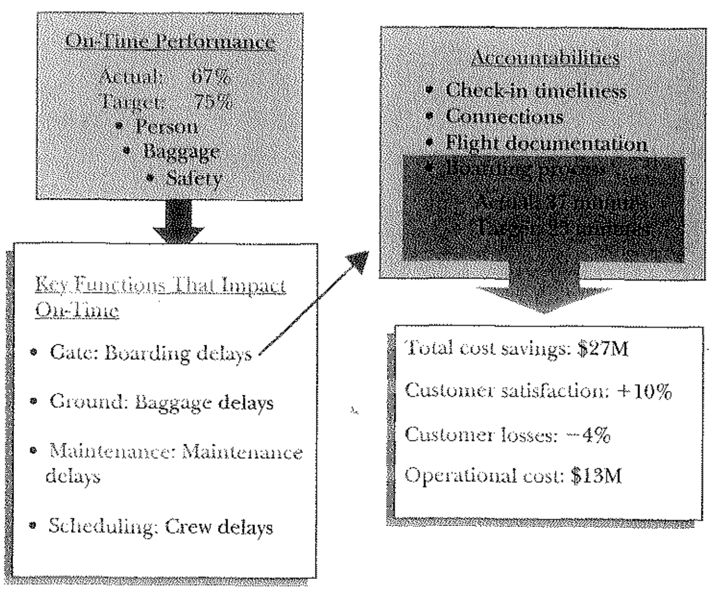
Cascading the Goals

The next step is making these goals relevant (understandable and meaningful) to functional roles, such as gate agents. Lingle again cautions, "Regardless of the function, the internal team that guides the cascade process must have good strategic thinking and measurement skills, as well as a level of influence in the organization." This helps middle managers and functional people to quickly understand what the scorecard means to the organization and to them. Few organizations can afford to have employees engaged in protracted debates over measures.

Figure 2.5 shows the current (baseline) and target performance for on-time performance that represented success for the airline. It also shows some of the roles that can influence that performance. Gate agents, for example, have four roles in Figure 2.5 that might influence on-time performance, such as check-in timeliness or boarding.

Boarding is one of the most important tasks of a gate agent. Figure 2.5 shows the impact of potential improvements in boarding speed (in this case from 37 to 25 minutes) on important outcomes such as customer satisfaction and retention and operational costs. To accomplish this, the gate agents might need to negotiate effectively with customers with connection problems or manage an overbooking situation. It is almost always possible to use a Pareto analysis[5] to identify the critical few roles or tasks that will have the largest impact on on-time performance. This enables gate agents to focus on the factors that, if improved, would have the greatest impact on a key role in achieving higher on-time performance.

Figure 2.5 Linking Strategic Scorecard to Accountabilities.



Competencies to Support the Strategy

Even if gate agents do play a critical role in on-time performance, they must have certain competencies that are related to those roles, especially the most important tasks in those roles. For example, negotiating skills are one of the most important skills because weak negotiators (and communicators) can waste a lot of time with a few customers who can detract from the boarding process. Planning skills are another competency that can play a big role. Gate agents who are better able to prepare for the flight (special requests, handicap needs, incoming flight delays) will be better able to expedite boarding when the opportunity avails itself. As you can see in Table 2.1, Agent 004 has better competency matches (either meeting or exceeding the levels desired for this role) to the Target Profile than does Agent 008.

Table 2.1 also shows how the effective prioritization of those competencies can be used in the selection of high-potential performers. For example, the flight attendant applying for a gate agent role might be a better prospect than the logistics specialist because the competency profile is better matched (for example, negotiating, communications) to the target profile than that of the logistics specialist.

Finally, Rewards Are Critical

While the figures in the table above show the linkage of the overall goals with key roles (gate agent) and competencies, they do not show the behind-the-scenes challenge of securing understanding and motivation required to support those goals. Gordon Bethune addressed the importance of establishing urgency and credibility during his turnaround at Continental Airlines. He met with union leaders, employees and managers, and banks, among others, to convince them of the importance of changes being made, such as the criticality of on-time performance. He had to convince them that it made sense economically (to banks and employees alike), and that they would be rewarded for achieving better on-time performance.

Gordon Bethune closed the loop on his Continental turnaround by offering incentives to all employees for each month

Table 2.1 Competency Evaluation Worksheet.

Gate Agent Competencies	*Communication*	*Planning*	*Organization*	*Negotiations*	*Detail Orientations*	*Strategic Thinking*	*Teamwork*
Target Profile	H	M	M	H	M	L	M
Agent 004	H	H	H	H	H	L	M
Agent 008	M	H	H	L	H	L	L
Flight Attendant 148	H	M	M	M	L	L	H
Logistics Specialist 329	L	H	M	L	H	H	L

H = high; M = medium; L = low

that the airline finished in the top three (originally top five) in on-time performance against their competitors. This reward went to all employees under the belief that this was a team effort to accomplish that goal. Suddenly, pilots, flight attendants, gate agents, logistics and maintenance employees were all in the game together. If they exceeded their own departmental goals, but hindered other functions from hitting their targets, they would all lose. This helped to break down silos.

It was an impressive example that supports Locke and other behavioral researchers by demonstrating that clear goals (on-time performance) and frequent (monthly), specific (on-time performance records) feedback connected with rewards drive change. Continental Airlines went from bottom of the pack to a top-five performer in only a few months, propelling to a top-three performer for much of the next year. It was such a good idea that U.S. Airways has borrowed the idea to propel their on-time performance from dismal, back-of-the-pack performance for many years to number one in mid-2008. Parallel to Continental, U.S. Airways has offered similar incentives for reaching best on-time performance (McCartney, 2008).

Performance Management Systems: Why Do They Fail?

While we have discussed the importance of the strategy-performance management link, and considerable research and history of organizations implementing performance management, why are so many performance management systems failing to achieve the desired impact? And why are so many employees, managers, and even a good percentage of HR professionals questioning the value of performance management? For example, in a recent Human Resource Planning Society (HRPS) workshop, a vice president of HR, who has served in key human resource roles for numerous Fortune 500 firms, echoed the sentiments of many others. "Does performance management really work? It often fails to achieve its desired objectives and often creates dysfunctional outcomes." She is not alone. I have heard similar views increasingly expressed by many other professionals. Is performance management fundamentally flawed?

Interviews with organizational leaders, performance management users, HR professionals, as well as an examination of case studies and research, reveal that there are a number of reasons for both the failures and the frustrations, as well as the handful of successes. Let us take a look at a few of the most salient factors.

1. *Performance Management Versus Performance Appraisal.* Our HR VP's "emperor wears no clothes" observation was challenged by at least one other professional in the HRPS seminar, who said, "Be careful not to confuse performance management and performance appraisal," noting that performance management should be viewed broadly as a collection of the values, systems, initiatives, and behaviors that help to create peak performance. In contrast, the performance appraisal process—often the annual setting of goals and yearly performance review—is more frequently the target of criticisms in philosophy, execution, or both. This distinction is an important one in that there are a number of broader factors beyond talent that play a role in the overall performance management process, such as the performance philosophy, organizational structure, technology enablers, or supply chain resources, that may also affect overall performance. So in looking for shortfalls, it is important to focus on elements of that overall performance process that are not working.
2. *Discipline Gap.* One of the striking features of many of the interviews, cases, and research notes relates to an apparent lack of effective implementation. Like so much else in organizational life, performance management and appraisal system failures may be a result of poor execution or a lack of authentic management commitment (Rodgers & Hunter, 1991; Rodgers, Hunter, & Rogers, 1993). Books by Bossidy and Charan (2002), and Welch and Byrne (2001), and many popular articles have focused on potentially embarrassing execution questions. Do managers know what the performance management processes are? Are they actually setting goals in the manner intended? Do people have the resources, tools, and ability to achieve the goals? Do they regularly provide feedback and coaching? Are rewards being distributed consistent with the performance philosophy?
3. *Accountability.* Accountability and execution often are intertwined and confused. While execution typically refers to implementing a well-designed performance management process effectively, accountability typically focuses more on individual or team goal attainment (or the process of getting there) and its consequences. Are there consequences for low performers who step up to achieve objectives?

   Leaders such as Jack Welch at General Electric, Larry Bossidy at Allied Signal and then Honeywell, and leaders at PepsiCo have been noted for holding people accountable for results. Says Welch, "The problem isn't about one individual—it has a negative influence on the morale and productivity of co-workers, who aren't blind to the individual's poor performance and who may also begin to accept and deliver mediocrity" (Rogers, 2006).

   The view that people who excel tend to resent working with others who aren't held to the same standard is supported by other researchers (Zachary & Fischler, 2007), who conclude that recruitment and retention of top performers is the ultimate payoff.

   At the individual level, GE has been known for expecting the "what" (goal attained) and also holding people responsible for the "how" (the methods used to obtain the results). Those who failed both tests were destined for reassignment. And those who obtained short-term results but perhaps sacrificed values, people, or sanctioned methods in the process were deficient as long-term leadership prospects. Those missing results but doing all the "right" things would be given additional chances.

   Microsoft requires employees to set ambitious goals or "commitments" that are created in consultation with their peers and supervisors and later made public. Peer pressure, or even just peer awareness, is a powerful motivating factor (Heath, 2008). This form of "horizontal accountability" asks team members to assume high levels of responsibility for goals and performance, without the intervention by a supervisor or coach (Ray, 2007).

   And here, philosophies differ widely. Some, like the comments of our wary HR VP quoted earlier, suggest that, no matter how well things are designed, the appraisal process is flawed—perhaps even going against the human grain. The critiques related to accountability are numerous:

- Many systems—forced ranking, for example—pit people against people, which damages teamwork and the achievement of broader group goals
- Systems mix monetary and other rewards with development or improvement goals, therefore creating conflicting objectives—do I want to get the highest rating or acknowledge skill gaps that I could improve in the future?
- Appraisal systems are threatening to self-esteem and self-worth by performance labeling as a "winner" or "loser"
- Many appraisal systems cause people to do what is preprogrammed or "expected" versus what is "right." For example: "Hit the target," even if conditions have changed or the target creates dysfunctional outcomes
- Managers are never skilled enough to truly conduct a complex psychological process, such as setting realistic goals, giving and receiving feedback, and coaching

4. *Measurement Scarcity or Overload.* One of the frequently debated issues is how "measured" the performance management process should be. Some organizations with high trust levels might be able to hold candid conversations without the negative baggage just described. In our research, we have found very few top-performing organizations without effective measures in place to drive overall performance. The variance seems to be more in the degree of measurement as you move down the organization and in the priority of those measures.

For example, Continental Airlines put an emphasis on on-time performance over many tactical measures, making priorities very clear. Jack Welch gave his leaders a choice: Either their businesses become the top three in their industry in financial performance or they would be sold. And WD-40 is certainly focused on bottom-line performance. It has achieved an enviable $1.25M of revenue per employee.

At the individual level, research has shown that too many simultaneous goals (and measures) can reduce performance, but most studies show that multiple goals pursued with enough lead time can actually enhance performance (Locke & Latham, 1990). But clearly there is an upper limit, which is not well established by research because the attainment of goals is dependent on many factors, such as complexity of tasks, goal difficulty, skill of performer, and interdependence of the goals. Experienced practitioners have often suggested that three to five primary goals are most effective. Seven is often mentioned as an upper limit. However, creating seven categories of subgoals under seven major goals is simply violating that principle and is likely to disperse focus.

5. *Lack of Balance (for example, short- versus long-term; single versus multiple stakeholders).* One of the biggest issues is how to balance the needs of many different constituencies. At the top of the organization, Kaplan and Norton (1996) suggested a balanced scorecard of four buckets to capture the major areas that every business must manage. The issue here is not simply the volume of goals as we just discussed, but the tradeoffs across those areas of focus to ensure that the organization is not optimizing one area (such as profit) at the expense of another (such as customer satisfaction).

The same principles hold at the team or function level. My colleagues at Metrus often conduct surveys of employees, internal customers, and top management (essentially a department or functional 360). The value is that functional leaders and teams often discover that they are managing one stakeholder well and another poorly, due to different needs, priorities, resources, or skills. Or they are strong in one area (such as technical) and weaker in another (such as communication).

At the individual level, the same holds true. The area of work-life balance is based on this multidimensional view. If one is focused on work to the exclusion of other life-balancing activities, often relationships deteriorate, hobbies disintegrate, and, for many, life satisfaction declines. For example, the accounting industry has found that to compete for and keep the best talent, they have needed to become far more flexible (Gold, 2008). In fact, RSM McGladrey has taken a rarely observed step: actually discussing life goals with employees as part of future planning and work-life balance.

A great deal of work over the past several decades has reinforced the view that this "balance" principle helps organizations and individuals maintain the health of their overall system (for example, overall corporate growth or life satisfaction), whether at the enterprise, functional, or individual level.

6. *Failure to Assess Impact.* A final area of challenge is assessing the impact of the performance management system in helping an organization to execute its strategy. Do better performance management practices help the organization achieve superior performance: profitability, revenue growth, customer loyalty and retention, retention of top performers? When we asked the leaders of the superior performing organizations from my interviews, there was no doubt in their belief that a strong performance management system drives results.

   We could find few examples of organizations that formally measure the impact of their performance management systems. One approach that this author has seen work is through the use of a balanced scorecard or strategic measures at the organization or unit level. In effect, these strategic measures define ROI; they are the strategic gauges of success. For example, when the organization invests in better goal setting, it should see increased clarity regarding the critical financial, customer, operational, and employee outcomes and drivers of organizational success. When such a system is in place, it is much easier to assess how well cascaded goals (and their achievement) are having an impact on key business outcomes.

Putting It All Together

Despite all the criticism leveled at performance management systems, there are organizations such as WD-40, SmithBucklin, and GE that make it work. Why? Four core elements set them apart:

- *Holism.* The performance management systems of WD-40, SmithBucklin, and GE are not isolated systems but rather highly integrated into the philosophy, values, and systems of the organization. Garry Ridge, the CEO of WD-40, says that this is part of the important values of the organization and "each part must complement the rest." For example, "You cannot have values such as 'Making it better than it is today,' and then not measure, manage, and reward to that goal."

  In the organizations that were the most effective, performance management elements were tied closely to values, management style and philosophy, customers, and other systems (for example, hiring, development, and rewards).
- *Role Modeling.* The performance management (and appraisal) process is driven by the top team's example. When I asked Bill Conaty, the recently retired top HR leader for GE under Jack Welch and then Jeff Immelt, about his reflections on the performance management differences of Welch and Immelt, he said it was style—not expectations. Both modeled and expected top performance from their respective teams. When James Kilts became CEO of Gillette, he instituted quarterly performance reviews at every level of the company, including the executive level. The business began to flourish as a result, outperforming its competitors, which Kilts attributes to Gillette's "driven" culture (Rogers, 2006).
- *Cultures That Evoke Self-Accountability.* As evidenced in the Gillette example, organizations with superior performance management systems also have high expectations of their managers and manage those systems in a disciplined way. They have annual goals, quarterly reviews, feedback from key stakeholders (customers, employees, peers), quantitative information, and frequent discussions. These various public sources of feedback make it nearly impossible for performers to be unclear about where they stand.

  Nancy Ely, the VP of human resources for WD-40, said that Garry Ridge, the CEO, spends enormous amounts of his time ensuring that people "don't have excuses." Leaders are expected to "help employees at all levels get an 'A'," by spending the time needed to ensure that the right goals are set and then becoming a resource to ensure that people are "getting A's." Says Nancy Ely, "This means immediately working with people who are getting B's or C's to get them back on track." They spend a lot of time keeping the performance bar high and quickly addressing gaps—they don't wait for annual reviews.

  Another refreshing view of accountability turns the traditional formula around and focuses on creating self-accountability—the kind that individuals or teams often create for themselves in volunteer organizations, hobbies, and other personally motivating ambitions. Marathon runners routinely set higher and higher standards of achievement. Other sports participants and fans look for new records of performance. Adults often take night courses to maximize their learning and excel at a hobby. A number of the successful leaders talked indirectly about creating this type of culture—one in which employees set stretch targets on their own and are motivated to reach new heights. For example, when Mike Burgett, the former head of U.S. operations for QIAGEN Sciences, Inc., developed a new biotech operation in Maryland, he created a culture that supported self-managed work teams. These teams achieved a 20 percent lower rate in the cost of goods sold, compared to other operations within the company.

- *Don't Over-Complicate.* While their processes are not simple, these organizations avoid unnecessary complexity. While a disciplined process is time-consuming and requires constant vigilance, these organizations do not make the evaluation process and steps so complicated that they break down under their own weight. For example, WD-40 says simply that they want every employee to get an "A." Goals are set as agreements between coaches and employees about what an "A" means. They agree on the measures, and then employees largely manage their routes to "A" performance. When they veer off-target, managers are ready to jump in to help them with resources, information, and skills enhancements to get them back on the path to an "A." Over time, they have developed a strong culture that almost self-regulates. Longer-term employees at first work with new employees to help them get to "A" performance. If this fails to happen, then peers are ready to ask management to take corrective action.

Conclusions

The field of performance management, and its connection to strategy, has evolved greatly over the past several decades, although research has been slow to catch up. There is a plethora of research at the individual level and a paucity of research at the unit or organizational level. While there has been an increasing amount of theory at the strategic and organizational level—balanced scorecard, organizational fit, and people equity come to mind—much more research is needed to understand what is working and why.

On the practical side, performance management remains a major challenge. In preparing this chapter, I found few organizations that truly demonstrated wholesale success in their attempts to link strategy to performance management. Organizations such as GE, WD-40, and SmithBucklin are still the exceptions to the rule. Several major gaps stand out across most of the less than stellar organizations. Lack of disciplined execution and accountability are two interrelated gaps; while organizations increasingly talk about their great systems, many still lack the organizational discipline to drive performance management holistically. Their practices too often find managers scrambling to complete goals well into the performance period and frantically trying to complete reviews necessary to get pay increases out by the deadline, rather than building an integrated performance management system, and all that it implies.

The second big gap is tied to the skills of performance "managers." Short of training them as psychologists, many struggle with the challenges of setting proper goals with their people, providing timely and meaningful feedback in a constructive fashion, and coaching people to bring out the best in them. With the increasing growth of service industries coupled with the likely shortage of talent in the next several decades, this will continue to be a major stumbling block. Organizations such as GE, Procter & Gamble, and Starbucks recognize how important, yet difficult, the roles of performance managers are, and have invested significant resources to ensure that developing leaders master these skills; they quickly weed out those who cannot truly groom top performers.

A final challenge perhaps is the efficacy of performance appraisal, which heretofore is most often a confrontational experience with evaluators frequently scoring those evaluated more critically than the ratees score themselves—creating a constant expectations gap. The most promising practices to overcome this dilemma include:

- Clear goals and measures that are mutually agreeable and quantifiable.
- Self-managed work teams that have group goals. While this begs the question of the measurement of group goals, it does solve some individual issues. For example, as long as individuals are willing to live with the team results, there is less focus on micromanaging individual activities, milestones, and contributions, allowing teams more flexibility to make adjustments to tasks as needed to help the team achieve the broader goal. Others have argued, however, that unless the stakes are sufficiently high, peers will not apply the necessary incentives on weaker performers to improve their effectiveness.
- Holistic reward plans, such as Scanlon plans that reward an entire organizational group. The rewards for on-time performance used by Bethune during the Continental turnaround is a good example of a holistic approach. Jack Stack, the CEO of Springfield Remanufacturing, used this type of approach to achieve great success after the buyout of the company in the 1980s. The company was featured on the CBS television show *60 Minutes* for the level of success it had achieved (Stack & Burlington, 1992). These systems tend to have few disputes over the measures, once they are established and clarify what employees must do to hit the important targets. Since often there is less measurement of individuals, it may be uninspiring for those used to (or needing) high individual recognition; and it may take more time to identify those not pulling their weight, although some argue that there is more peer pressure on non-performers in these environments.
- Placing more of the responsibility for goal setting and monitoring in the laps of employees and teams. While leaders need to sign off on employee or team objectives, individuals are placed more in the position of value managers, having to demonstrate that their volunteered objectives help the organization achieve its key goals and values. This means they have an incentive to understand the business better and how they contribute to it. Furthermore, the responsibility rides with them to track and demonstrate to management that they are hitting the targets and adding value. This shifts the role of managers to one of negotiating goals that make a difference and then to closely monitoring and coaching performance. Since the burden rests with the individual performers to "sell" their goals and performance, it is more akin to selling a product or service to a customer, removing some of the "entitlement" aspects to traditional systems.

While no system will be perfect, it is clear that organizations will need some process to ensure that their performance is sufficient to execute their strategies better than their competitors. It seems clear from both research and practitioners that there are both a set of principles, many of which are long known but not necessarily well executed, that are essential for strong performance, as well as unique characteristics of an organization—its culture, leadership style, and strategy, for example—that require those principles to be tailored to the particular context. Copying one's performance management neighbor does not seem to work well. Instead, the leading firms interviewed appear to uniquely tailor the performance management system to their strategy, culture, and management style, but do so holistically. That is, they manage to ensure that their values, management style, and human resource systems are aligned and part of a cohesive framework. Within that, they apply many of the proven principles of performance management; for example, clear direction; well-articulated specific goals; rapid, effective feedback and coaching; and good incentives. While not perfect, they provide tested and researched practices that will help the organization fulfill its mission.

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Notes

1. We had actually administered a survey with this same question beginning in the early 1990s to executives and upper-middle managers (directors or senior managers) at Conference Board and other leadership conferences. When we repeated these surveys to a variety of audiences (conference attendees, national samples, client organizations), we found results that varied little from the 1990s through the recent periods. Agreement on strategy does not seem to be getting noticeably better.
2. Although it has been argued by Buckingham and his colleagues that it is not possible, or perhaps worth it, to try to address skills gaps; rather, they argue that it is more important to focus instead on developing people's strengths. Clearly, this approach would change the nature of the feedback and development component of performance reviews, but does not easily explain what organizations are to do with all of the "misfit skills," short of reassigning many employees to different roles. And, would that be effective (or cost-effective) for the many players in roles in which only a few skill gaps exist?
3. Continental Airlines had recently merged with the failing Eastern Airlines, whereas Southwest Airlines started with a non-traditional approach to airline management from its inception.
4. Since those halcyon days, Bethune has retired and Continental has slipped somewhat in on-time performance as of this writing.
5. Pareto analysis is a method to identify the contribution that different drivers, or causes, have on particular outcomes. This has led to the common 80–20 rule that suggests that 20 percent of the causes create 80 percent of the impact.