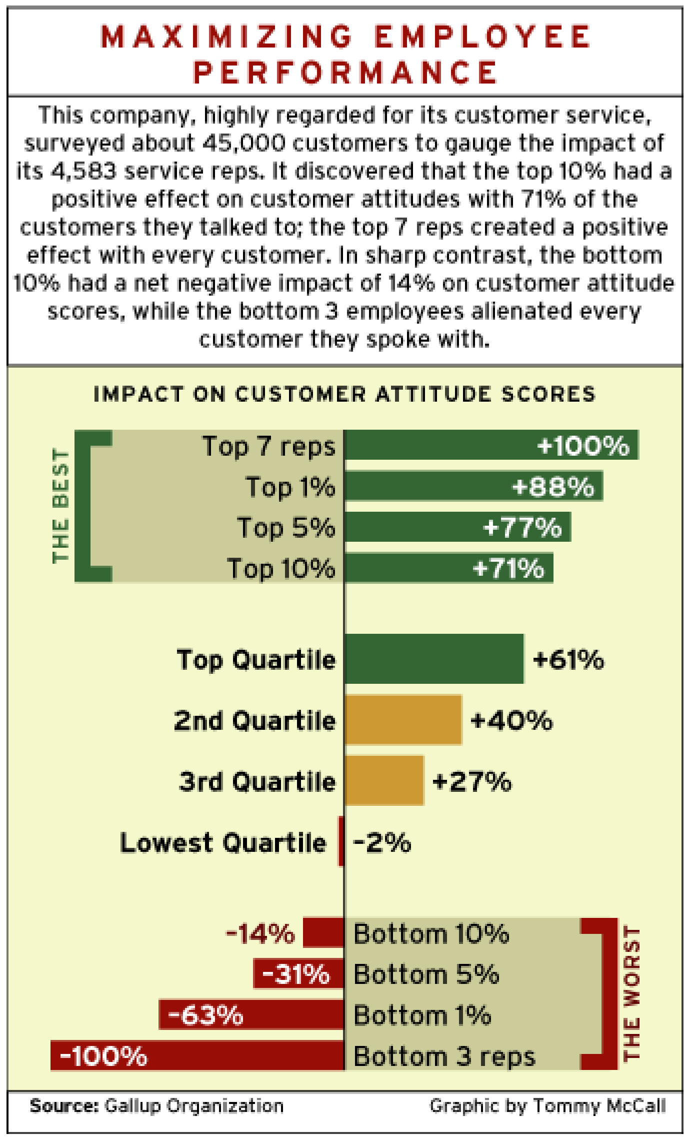
The Fundamentals of Performance Management

Three keys to creating a system that eliminates costly variation in employee performance

by Glenn Phelps

How employees embrace the work they do has a dramatic effect on their company's financial performance. Engaged employees stay on the job longer, and they are safer, more productive, and more profitable.

But while employee engagement is a key factor, it isn't the sole contributor to maximized employee performance. Engagement is just one aspect of a larger concept: performance management. For our purposes, "performance management" refers to an integrated management system that boosts the valuable output of employees to its functional maximum -- and keeps it there.



Although many companies claim they are getting the most from their workforces, Gallup's research refutes this. In the companies Gallup has studied, we've found an astounding range in performance and value production at the employee level.

The performance of more than 4,500 customer service reps at a company that is highly regarded for its service illustrates this point. This company surveyed about 45,000 customers to measure the impact that its service reps had on customer attitudes. Customer attitude is a potent indicator of future value creation for companies: Positive customer attitudes predict lower service costs, higher share of wallet, and higher customer retention; negative attitudes predict the opposite.

As the graph to the right illustrates, the top 1% of employees created positive attitudes among 88% of the customers they talked to. Results were also impressive for the top 5% and top 10% of employees. And the seven employees at the very top?

They were true brand ambassadors, enhancing customer relationships with every interaction.

Meanwhile, those in the bottom 10% had a net negative impact of 14% on attitude scores after their interactions with customers, while the bottom 5% and 1% of call center employees caused attitude scores to plunge even farther. And the three least productive employees? They managed to alienate every customer they spoke with.

The range in performance has a dramatic influence on this company's financials. Employees in the bottom performance quartile do tremendous damage to this business. When customers talk to these low-performing employees, the cost to serve those customers is about three times greater than when customers talk to employees in the top quartile; similarly, when customers talk to low-performing reps, the customer attrition rate is about twice that of customers who talk to reps in the top quartile. It would have been cheaper for this company to pay the low-performing reps to stay home, rather than have them come to work and destroy company assets through poor performance.

This range in performance isn't limited to service representatives. In virtually every workforce Gallup has studied, we've found a similar range in individual performance on almost all objective measures.

What can companies do to eliminate this range in individual performance -- and its devastating effects on financial performance? An obvious solution is to implement a performance management system, because boosting employee performance levels should deliver substantial financial rewards. The challenge is implementing performance management that realizes those rewards.

An effective performance management system includes these key components:

- hiring and promoting employees into roles that fit their talents
- creating a supportive work environment
- freeing teams to develop their own workflows

Transitioning from current practices to those that encourage and reward higher performance levels isn't easy. Let's look more closely at these three components.

Hiring and promoting employees into roles that fit their talents

In attempting to build world-class workforces, many companies waste time and money trying to develop employees through training. Employee training can be a valuable business investment, but only when it's offered to employees who have the potential to excel in a role or at a task in the first place.

Before making heavy investments in training and development, companies should focus on hiring employees with the right talents for their roles. The first step is to objectively assess the demands of each role. Then build a model of the talents required for exceptional performance in that role.

Once companies have developed an appropriate talent profile, they can assess their applicants against it. This seems obvious, but too many companies skip these crucial steps. When these companies seek to recruit top-performing employees, in fact, they often place too much value on an applicant's experience and knowledge, while failing to assess whether his or her talents match those required for success in the role.

Companies make the same mistake when promoting employees. For example, not all salespeople with a superb sales record have management talent. Yet frequently, top-performing sellers are moved into sales management roles -- and they fail miserably. Similar promotion schemes are seen in far too many companies. How many times has a brilliant technical expert with no management talent been moved into a leadership role? Outstanding sales or technical excellence doesn't ensure that these employees can manage a team, and all the management training in the world won't change that. Promotion mistakes like these frequently result in unhappy teams -- and lost productivity and profitability at both the team and employee level.

Creating a supportive work environment

Gallup research has found that an employee's immediate supervisor has the greatest influence on his or her engagement. Employees need the trust and security created by a close employee-manager relationship before they'll invest in performing their jobs at the highest level. Without strong management support, most employees feel that high performance levels are too risky, require too much work, are blocked by too many barriers, and offer too little reward.

To achieve outstanding results, talented employees need a work environment that supports them in their efforts. When talented employees receive that support, they become more engaged -- and the greater the employee engagement, the better the financial results.

Freeing teams to develop their own workflows

The third component of an effective performance management system is freeing teams to create their own workflows. Just as employees need a trusting relationship with their managers to excel, managers need to trust their teams to find the best way to produce excellent results.

This goes beyond implementing total quality management (TQM) or Six Sigma processes. No job has a perfect process associated with it; there are no "magic steps" that will produce an excellent product every time. Mistakes will occur, and any process will produce suboptimal results if the team using that process doesn't *own* the process. Teams that determine their own workflows are far more likely to own their work and its outcome -- and they're far more likely to achieve high performance levels.

The approximately 4,500 customer service reps in the chart above provide a compelling example of this principle. These reps work for a company that takes pride in its long history of -- and success at -- applying TQM principles to its workflow. That company even received a Malcolm Baldrige National Quality Award for its efforts. But as the chart shows, great processes don't eliminate variance in individual performance results. What's more, they don't prevent the worst employees from driving away customers.

Is this company's workforce better for having developed award-winning quality processes? The answer is an unqualified yes. But that still leaves an entirely new level of opportunity for value creation by boosting individual performance levels.

Putting it all together

The fundamental ideas of performance management are simple: Get great people and develop them; create a supportive work environment; focus employees on the right targets, and then free them to create their best ways to achieve them. Executing these principles, however, is often more difficult; even award-winning companies with the highest quality standards fall short.

Where are the breakdowns? In some cases, *none* of the principles above are being effectively implemented. Falling short in just *one* of these key areas diminishes the outcome.

The result is a least-common-denominator style of management, one designed to ensure compliance with standards and the lowest possible costs. It's a typical -- and understandable -- approach. However, when you consider the cost in lost potential, the irony is that the least-common-denominator management approach produces the most expensive management scheme imaginable.

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