

The business of performance management

Strategic performance
management



For global firms, the recent past has been marked by financial crisis, an unpredictable recovery and persistent uncertainty. Looking to the future, the dominance of fast growing economies leaves industrialized nations facing ever greater challenges to maintain a competitive edge. Those that survived the economic crisis now need to shift gear – the race is on. >>

A familiar failing

To find out how business leaders intend to increase their competitive advantage and boost business performance in the post-economic landscape, Hay Group asked global business leaders about the state of the global economy and its impact on growth ambitions. We asked about the challenges these ambitions present and the solutions firms are putting in place to achieve them.

Having relied heavily on the classic business improvement levers over the past three years such as cost cutting and setting aggressive sales targets, what new approaches should business leaders be adopting in order to drive a new growth strategy?

Despite the M&A market picking up, firms cannot rely solely on acquisitions to achieve growth. Businesses looking to grow organically however are going to need a radical step-change in workforce productivity if they are to meet projected growth targets. This in turn will mean rethinking their approach to performance management if they are to change gear and compete effectively in what is increasingly becoming a two speed economy: Asia and the rest of the world.

Yet when it comes to performance management, global firms are still making the same mistakes they were over 20 years ago. Back in the early-1990s work carried out by Kaplan and Norton¹ demonstrated that for performance management to be effective, firms must link their approach directly to corporate strategy.

¹ In the early 1990s, Drs Robert Kaplan and David Norton developed a performance management framework called the 'Balanced Scorecard' to give managers and executives a more balanced view of organization performance.

Without an approach to performance management tailored to strategy and culture, firms will not be in the right shape to deliver the growth expected of them

A quarter of a century on, our research finds the great majority of firms failing to do so.

Our forthcoming report reveals the need for a laser focus on individual and organizational performance management if firms are to achieve their ambitious growth targets for 2011.

Our study also highlights a further critical success factor for effective performance management: company culture. An overwhelming majority of business leaders stress the importance of linking culture to performance management. Yet most fail to connect the two.

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Ambitious growth targets

Having battened down the hatches and got through the recession, business leaders are now in a bullish mood, setting ambitious growth objectives for 2011 and beyond.

Global firms are aiming for five per cent growth on average – targets which outstrip most prevailing economic forecasts, in some cases to a significant extent (see figure one).

In this context, a large majority – two thirds (63 per cent) of business leaders admit that their firms’ growth targets present a significant challenge.

The performance challenge

Despite the M&A market showing signs of picking up², executives remain cautious about growth through acquisition, as they recognize the challenges inherent in delivering shareholder value³.

To achieve these goals therefore, leaders are expecting to drive significant productivity improvements through their workforces.

Yet after three years of turbulence, CEOs have exhausted the measures they typically rely on to shore up business performance: cost-cutting, discounting, divestment, aggressive sales targets.

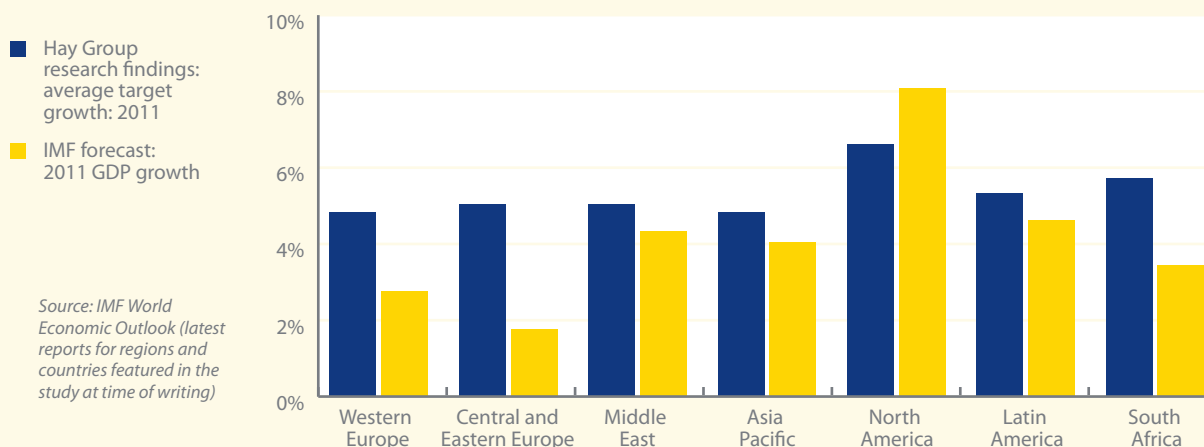
Business leaders are therefore turning to the performance lever: executives plan to increase workforce productivity by some six per cent on average.

Risk factors

Firms need to harness the collective power of their workforces to deliver their growth ambitions. Yet business leaders fear the repercussions of asking for more from staff who have worked hard to support firms through a prolonged period of uncertainty: almost half (44 per cent) are concerned that their employees are already too stretched to deliver current business objectives. Measures such as salary rises and other reward mechanisms will not bridge the productivity gap revealed by Hay Group’s research.

Business leaders identify a series of critical risks inherent in asking for more from their employees. Around half agree that their focus on productivity improvement will lead to a significant risk across the board from employee disengagement to internal conflict as figure two demonstrates.

Figure one: Growth targets versus economic forecasts



Driving performance

At a time when productivity is critical to achieving growth – and a challenge in itself – CEOs must realize that performance management is their job.

Performance management sits at the heart of business success. Global firms can only achieve the large-scale productivity uplifts they require by engaging their people. This means rigorously managing individual performance, and implementing a strategic performance management system fully supported by the leadership team.

Business leaders agree that improving individual performance is critical to achieving growth targets. A significant two thirds (64 per cent) told Hay Group that individual performance management is an important driver of overall business performance. Close to half (43 per cent) believe it contributes to the bottom line.

As a result, the majority (52 per cent) plan to implement more rigorous individual performance management this year.

Performance mismanagement

Despite its role in driving business success, global firms are not getting the value they could from performance management. However, Hay Group's research reveals a continuing disconnect between performance management and company strategy.

Business leaders have known for over 20 years that for performance management to make a difference, it must be directly linked to the strategy put in place to achieve the firm's targets. However, almost three quarters (73 per cent) of firms still fail to align performance management to company strategy.

The connection with strategy alone is not enough. Still more firms (76 per cent) fail to tailor performance management to the firm's culture and values. Yet the impact of organizational culture on business performance should not be underestimated. The overwhelming majority of business leaders (90 per cent) stress that company culture has an important impact on the effectiveness of performance management.

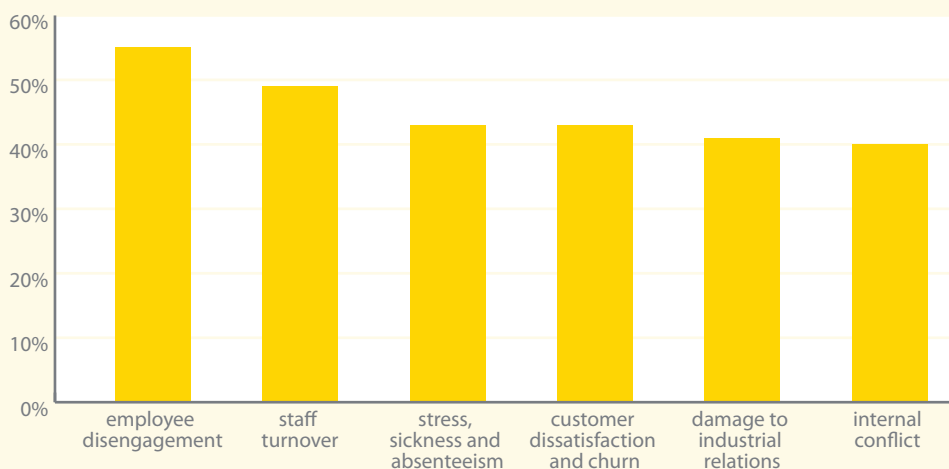
Despite knowing and understanding the importance of connecting their performance management approach to strategy and culture, only 13 per cent of firms actually do both.

In addition, around four in ten business leaders believe that managers in their firms fail to use their performance management process effectively (40 per cent) and that they do not actively support the process (38 per cent). As a result, business leaders are unable to dedicate adequate time to managing poor performance: almost 40 per cent admit spending 10 per cent or less of their time doing so.

It is therefore no surprise that almost four in ten business leaders (37 per cent) describe their performance management process as a 'tick-box exercise', rather than a powerful managerial tool to help them implement their business strategy.

73 per cent of firms still fail to align performance management to company strategy

Figure two: The productivity 'riskometer'



² The value of announced deals rose to USD 1,545.17 billion in the last six months, compared to USD 1,119.89 billion during the same period of last year: Thomson Financial, April 2011.

³ Hay Group's report, *Dangerous liaisons*, revealed that only nine per cent of deals were considered by executives surveyed to have fully met the objectives that drove the deal in the first place.

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The heart of performance

Business leaders are putting their people at the heart of efforts to achieve ambitious growth. In this context, performance management is the only effective way for firms to drive the success that CEOs expect and shareholders demand.

Yet while telling us that performance management is key to delivering their objectives, business leaders admit that their processes are 'broken'.

Only by linking performance management directly to strategy and culture can executives expect to deliver the productivity improvements they need to achieve the challenging growth targets they have set. There is significant scope for a more strategic approach to performance management to improve business performance.

Further information

The full report will be available on the Hay Group website from October 2011 at: www.haygroup.com/ww/spm

About the *Strategic performance management* report

This forthcoming report from Hay Group is based on independent opinion research among senior decision-makers in 1,660 firms from over 30 countries across Western, Central and Eastern Europe, North and Latin America, the Middle East and Asia-Pacific. All respondents represent firms with an excess of €250 million annual turnover.

About Hay Group

Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

We have over 2,600 employees working in 85 offices in 49 countries. Our insight is supported by robust data from over 100 countries. Our clients are from the private, public and not-for-profit sectors, across every major industry. For more information please contact your local office through www.haygroup.com

