Performance Management Provides Road Map to Recovery

Leadership,Accountability Are Keys to Success

The management of an organization that has undergone a turnaround usually traces the genesis of its pain to one of several factors: rapid growth, shifting customer preferences, or an unforeseen change within the competitive environment.
Naturally, the executive group ascribes the disintegration of profitability to external factors beyond its control.

Circumstances that precipitate a financial crisis vary among companies. Despite this, the singular cause of business failure is management's lack of focus on performance management. Symptoms relating to the lack of a performance management culture usually include one of the following:

- *A lack of rigor surrounding the cash management process*
- *Poor controls in the areas of manufacturing, planning, and procurement*
- *No linkage between financial measurements and key performance drivers*
- *Lack of accountability within the ranks of management*
- *A general lack of focus and ownership of results*

Debtors, creditors, shareholders, and management all have vested interests in the long-term viability of a company that has undergone restructuring. Thus, for the turnaround manager, the development of a performance management culture becomes critical to setting the organization on a sustainable path to recovery.

Core Elements

An effective performance management culture exists when employees use practical management tools to set targets, measure performance, and implement concrete action plans to meet objectives. To some extent, all organizations set targets and monitor results. However, in most distressed companies, strategy and initiatives are not linked; even if they are, rarely are they aligned to the right targets that drive the core engines of the business. Action planning is likely nonexistent, making implementation of a performance management culture impossible.

For a turnaround consultant, significant hands-on involvement with management is often required to align and implement systems and sharpen an organization's skills and practices. This results in the development of a disciplined approach to management, which becomes the organizational norm that allows employees to deliver measurable results.
Companies that have implemented and sustained a performance management culture exhibit three core elements.

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Leadership

Of the core elements, leadership is paramount. The role of leadership within a company is to generate clarity around strategy and to provide focus on the critical priorities and activities that management needs to execute to be successful. Sound leadership also ensures the alignment of the executive group, along with systems and processes that translate actions into metrics and results. Without solid leadership, it is unlikely that a performance management culture, let alone a turnaround, can succeed.

Telltale signs of ineffective leadership are usually evident in a range of conflicting objectives and priorities, predominantly among sales, manufacturing, and marketing. A lack of executive alignment in these areas becomes very pronounced when a significant shift occurs in the external environment prior to a crisis. Effective leadership, however, involves managing expectations, supporting employees to achieve targets, and dealing with performance issues.

Accountability

In a successful performance management culture, all employees are accountable for results. Ownership of results is everyone's responsibility, from front-line workers to the CEO. This is distinctly different from the approach taken by most organizations, for whose employees targets are meaningless. But expecting a frontline worker to influence "profit" is, at best, a nebulous request. Employees cannot be held accountable for results that they cannot influence.

In a performance management culture, employee accountability becomes the norm through two main activities. First, individuals set specific objectives and targets for their functional areas. With the support and involvement of management, employees focus on key measurables that drive strategic goals. Second, employees are empowered to take action to directly influence the targets they have set. The combination of target setting and empowerment encourages employees to be accountable for results.

Capability

Most companies' workforces possess high degrees of tacit knowledge. Sales people know their customers, for example, and press operators understand their equipment and its limitations. "Capability," however, refers to the ability of a workforce to apply functional knowledge to solve issues that emerge on a daily basis.

Without an adequate baseline of skills, employees don't have sufficient knowledge or perspective to resolve problems as they emerge in a performance management culture. Common examples include sales not understanding contribution margin, marketing not understanding the value proposition or market segmentation, and manufacturing not understanding the inventory implications of a production bottleneck.

In addition to organizational competency, workforce capability requires a clear understanding of what must be executed to meet performance expectations. Capability alone, however, is not enough. Management must be committed to the concept and demonstrate leadership by removing barriers that inhibit employees from dealing with problems and issues that they encounter. A management team that understands how to do this creates a culture of accountability, which leads to successful performance management.

Comprehensive Approach

A successful organization that employs performance management has a clearly articulated strategy that provides focus for the company. A well-thought-out strategy includes a thorough consideration of markets, competitive factors, and internal capabilities. Thus, a tightly knit strategy must be developed and put in place before work on performance management begins.

With a sound strategy in place, a turnaround manager can begin to implement performance management by analyzing the business issues that led to the financial crisis. This involves understanding the specific activities and events that transpired and determining how an effective system should address the problems.

For instance, a company's management may say that a loss in market share precipitated the crisis. However, this explanation may mask serious quality or cost issues that the organization has refused to address. Another reason often cited for a company's decline is deteriorating sales. However, this may be an oversimplification rooted in production mismanagement or in a lack of focus on core marketing activities, such as pricing or distribution.

The next step in putting performance management into practice involves aggressively engaging the executive group in developing and implementing the initiative. Despite the power that a turnaround manager wields in an organization, his ability to engage the management of the company successfully ensures that ownership of the initiative remains after the consultant has departed. This degree of involvement also allows a turnaround specialist to evaluate objectively an executive team's leadership, capability, and propensity for accountability and sets the stage should it be necessary to make changes in the management team.

Once core target areas have been identified, a series of four activities provides focus for designing and implementing a specific performance management system.

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Identify Core Drivers.

With a firm focus on the problematic areas, the first step involves identifying the current performance drivers and indicators used by management. Typical examples include production output, sales, and quality. This exercise will often expose a lack of agreement in the ranks of management on issues such as a common measure of profitability. It should also become readily apparent if management is working at cross-purposes in different functional areas.

Current drivers and indicators are assessed to gauge their effectiveness. This requires a hands-on approach that involves delving into the daily performance of the targeted departments and operations areas. Activities could include external and competitive benchmarking and time-based studies in production. A cardinal question that provides maximum clarity should be asked of each person in these discussions: "How do you know if you have done a good job or had a good day?" Any response that is not clear points to a lack of accountability.

In many companies, targets are set based on historical data, devoid of any meaningful analytics

In almost all cases, problems become readily apparent. Typical examples include:

• No measurement of contribution margin, resulting in both profitable and non-profitable products being produced and sold
• Ineffective production measurements that can be manipulated easily to meet targets
• Nonexistent or ineffective tracking of market shares of major products, which creates a false impression of the company's position in the marketplace

The next step involves defining what the core drivers should be. Several groups or teams of individuals from management and appropriate line functions should be formed to determine the appropriate performance drivers and indicators. Although a turnaround professional will already have a good idea of what those should be, the consultant should work with the groups but allow them to reach their own conclusions.

Effective performance drivers and indicators must be:

• Measurable. Quantifiable data is the focus, not targets such as "happy customers."
• Controllable. A person or group within the company must be able to affect the outcome.
• Relevant. They should be linked directly to key business objectives identified in the strategy.

From these discussions, a clear view should emerge about how specific parts of a business should be managed. Lack of alignment among executives and management gaps are likely to surface as they clarify focus for different parts of the business.

Set Targets

With the core drivers established, the next step is to set specific targets. In many companies, targets are set based on historical data, devoid of any meaningful analytics, and tend be developed from budgets that may be unrealistic. Targets also tend to be set by management with limited front-line ownership beyond being told, "It is your job."

In contrast, target setting in a performance management culture requires that targets:

• Be attainable. Internal studies, benchmarking, and time studies, along with in-depth discussions, are used to define what is achievable and attainable.
• Are driven from the bottom-up. Individuals and groups assembled to conduct internal studies and benchmarking are in positions to set effective targets, based on knowledge they acquired during the process.
• Require ownership. Because targets are set by both line workers and management, they are effectively owned by individuals who can affect their outcome. This engenders accountability and is crucial to effective management of the business areas.

Implement.

A performance management culture succeeds when the right information gets into the hands of the right people. Implementing this system requires that timely and relevant information is highly visible to all. Thus, an effective reporting system must be established. Commercial spreadsheets and database products make this relatively easy. A typical report includes drivers and indicators, along with the targets that have been set. Results are compiled to track performance.

During the implementation phase, adequate time must be devoted to training employees on performance management principles and to explaining how their responsibilities and company expectations have changed. The active engagement of the groups and teams that assisted since the beginning of the initiative plays a critical role in supporting employees in the new environment. As a result, market share, sales, production, and accounts receivable reports move from the hands of senior executives into the hands of front-line staff and managers who are responsible for meeting targets. Employees track their own performance to targets by logging their results.

As employees and managers work through the new system, areas of resistance are identified. The role of the turnaround manager at this juncture is to work with the management group to ensure that resistance and obstacles are overcome.

Review

With performance drivers, targets, and supporting systems in place, a regular review process provides the mechanism that ties a performance management system together. Without regular and timely reviews, an effective performance management culture is unattainable.

The goal of reviewing results with the appropriate employees in a timely manner is to generate specific and actionable activities to be performed by individuals who are accountable for the results and to instill in them a sense of urgency. Employees no longer play a passive role. They are expected to identify opportunities and issues and develop specific action plans to implement solutions.

These action plans are then logged, outlining who will do what by when. Consequently, employees and management develop a bias not only for identifying problems, but also for generating action plans that will help them meet their targets.

Long-Term Value

Stemming the financial hemorrhage is only the first step toward recovery for an ailing company. Developing and implementing a performance management system ensure that past mistakes are not repeated and provide a roadmap to long-term value recovery.

Implementing a performance management culture requires focus and discipline. The role of the turnaround professional in this capacity is to guide the process and force necessary personnel and organizational changes when necessary. Over time, this results in the development of an organization and management team that is focused on results. Indeed, the mark of a truly successful performance management culture rests with the commitment and capability of management to succeed.

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