

Making the Connections **for improved business performance**

Business Executives and Boards of Directors seek assurance that human assets are being effectively directed to increase value, organization performance and profitability. When this pre-condition exists, then it becomes easier to obtain a mandate from a Board or CEO to develop effective total pay, incentive pay and reward programs that will add exponential value in the form of enhanced results. In reality, the improvement in business performance may require that pay and performance programs change first – improved results will follow.

The connections between pay, employee performance, motivation and organization performance are often unclear or poorly drawn. The purpose of this document is to shed some light on the connections that will allow significant improvement to business performance and assure progressive reward structures for employees.

Numbers or Behaviors?

From time to time provocative models seduce the business world. This in itself is not a bad thing as long as the models can be connected and applied as a seamless set of solutions that add significant value and improvement. Consider the *Balanced Scorecard* fervor that has caught so much attention in recent years. This model suggests using broad strategic targets and measures (the numbers approach) to move organization performance to higher levels. The impact on people is an expectation that each organizational member will commit to making gains toward improvement targets in performance (i.e., increased levels of customer satisfaction, improved innovation and improved processes).

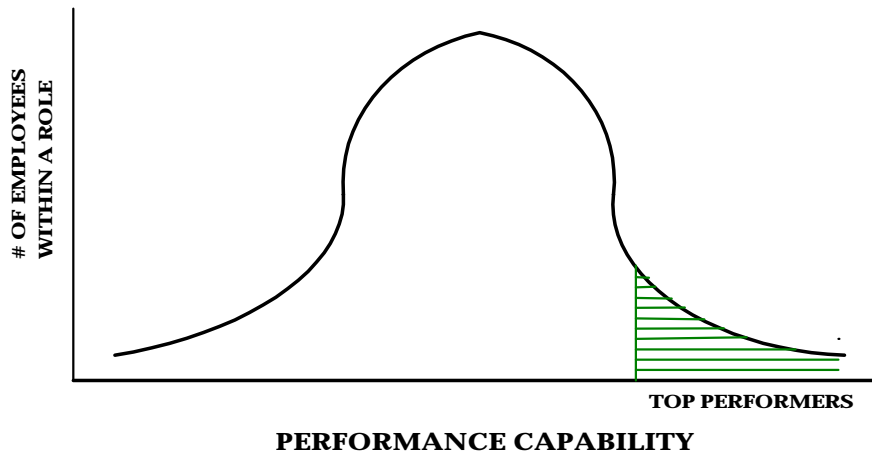
When Robert Kaplan and David Norton introduced "the balanced scorecard" in an influential 1992 Harvard Business Review article, they thought they were dealing with measurement not strategy. Their premise was that the exclusive reliance on financial measures by management was prompting organizations to do the wrong things, because financial measures are lag indicators, reporting on outcomes that are the result of past actions. The balanced scorecard supplemented financial measures with a broader range of performance drivers -- whether lowering production costs, cutting errors, or improving customer satisfaction -- that served as lead indicators of future financial results. Many of the companies that applied the balanced scorecard experienced dramatic turnarounds far beyond what anybody anticipated. The reason, the authors suggest, is that the balanced scorecard served unexpectedly as a convenient vehicle for managing strategy.

Now switch to another groundswell in rethinking organization performance – that of building *Competencies* (a behavioral approach). The suggestion is that a highly competent organization will outpace its competition in all strategic areas. The corollary to this is that organizations need to develop the individual DNA of the organization – the competencies of its employees.



The gain or return on investment can be outstanding when you consider that employees performing at the top range of competence contribute incredible individual value. The following figure shows the value of shifting an organization's competency curve so that it is skewed on the high side.

IMPACT OF "HIGH PERFORMANCE" EMPLOYEES



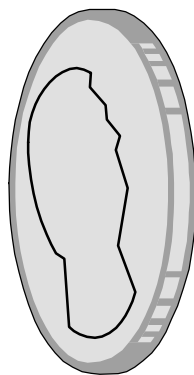
The top 16% of performers contribute 19 to 120% of output/value added:
in moderate competency roles (i.e., supervisory) 32%
in high competency roles (i.e., managerial) 48%

So which model is correct or offers the highest return on investment?

Two Fundamental Approaches

Numbers Driven

- cost control
- market share
- quality improvement
- Pro's
 - Clear ties to short-term financial performance
- Con's
 - External effects
 - Individual vs. team
 - Short term / trust



Behavior Driven

- concern for quality/service
- judgment/thinking
- interpersonal/communication
- Pro's
 - Focus on actions that deliver improved performance
 - Builds high performance
 - Everyone is in . . .
- Con's
 - Longer to develop as focus is on medium to longer term

The answer is neither A nor B, but the two in combination. Better yet, combine these with the best thinking and practices for **strategy development, performance review, employee development** and **pay & reward structures**.



A more complete approach is needed to assure a well-balanced and integrated approach to driving business performance improvement. The following checklist highlights several key steps and components that all organizations need to undertake to improve their results and success. **Take a minute with it and assess your organization’s progress to addressing key human performance components.**

Necessary Conditions for the Performance – Value Chain

Corporate strategy and business plans should form the foundation of any organization structure. After all, the organization’s systems should be defined by the *purpose* of the organization. Performance and development strategies follow on from this foundation. Here is a quick checklist that will help you understand what areas your organization would benefit from improving:

✓	Prerequisite	Benefit
Strategic		
	1. Clarity and alignment exist within senior management in regard to the stated purpose and vision of the organization	This enables focus, as well as coordinated, supported and aggressive action to be taken to transform the organization
	2. A full and inclusive strategic review has been completed within the last 18-months including an environmental scan	The organization has a clear understanding of strengths to leverage, weaknesses to compensate for, and opportunities to pursue in regard to achieving its Vision.
	3. The outcome of the strategy session includes specific priorities and target setting for improvement	There is a clear understanding of applied strategies and actions and how they impact on performance; clear agreement exists on <u>high priority</u> action which need to be taken
	4. An involving and fully inclusive set of planning & communication processes cascade throughout the organization	All employees share in alignment and ownership of vision and targets. Individuals have their own objectives framed to support their department and the whole organization
	5. Qualitative and quantitative measures exist as well as sponsorship & ownership to assure accountability	Clear and balanced measures exist to assure progress is being made or corrective initiatives applied at all levels (i.e., corporate, departmental and individual); this forms a sound basis for a <i>performance</i> component of incentive pay



✓	Prerequisite	Benefit
Performance		
	6. Organizational goals are fully defined and supporting elements identified at the departmental/team and individual level	A blueprint exists that provides a strategic focus to group and individual effort and behavior within the organization
	7. Reward consequences are defined – pay for performance formulae exist and support performance at all levels	Expectations are clear, strategic and understood; internal equity in regard to expectations and contribution is established; pay for <i>performance</i> can occur
	8. Effective and timely processes exist that support and objectively assess an individual’s contribution to meeting organization targets and improvements	This critical discipline assures that both target setting and accountability are key and credible values within the organization (timely assumes high frequency i.e., quarterly)
Development		
	9. The organization understands the <i>Core Competencies</i> that will allow efficient attainment of its vision and goals; succession issues are understood, as is an objective assessment of the talent within the organization	A human resource strategy starts to unfold, enabling the correct strategies to be put in place for employee development, succession, hiring/promotion and a component of pay for <i>competence</i>
	10. People are assessed not only for their performance outcomes (see above), but for their level of competencies which allow or impede success	Tools exist to improve the people of an organization, their effectiveness and potential to deliver value

Sound like hard work? It really shouldn't be as many processes and methods already exist that enable organizations to implement and master the key components that will assure higher levels of corporate and human performance.

Optimize your organization's performance by contacting us. We would be pleased to share examples of real solutions, applied by other organizations, which meet the prerequisites above.

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