

“Executives should greet this book with joy and gratitude . . .”

Sir Martin Sorrell, CEO WPP



# LEADING ORGANIZATIONS

TEN TIMELESS TRUTHS

SCOTT KELLER | MARY MEANEY

B L O O M S B U R Y



# LEADING ORGANIZATIONS

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# LEADING ORGANIZATIONS: TEN TIMELESS TRUTHS

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**Scott Keller and Mary Meaney**

**Bloomsbury Business**

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# FOREWORD

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**WHEN SCOTT KELLER** wrote and told me that he and Mary Meaney had written a leadership book, and asked if I would write a foreword, my reaction was swift and negative. I was confident that a book by two partners at a fancy consulting firm like McKinsey & Company would be packed with breathless hype about novel ideas and claims that these new, unique, and magical insights had helped their clients perform astounding feats—and how these spanking new ideas can enable you and your organization reach the same heights. I was cynical because a discouraging proportion of the 11,000 or so business books published each year claim to have original breakthrough ideas. Unfortunately, most of them—in fact, nearly all—are reminiscent of how the renowned organizational theorist James G. March answered me when I asked him to list breakthrough academic studies in our field. March said that he couldn't think of any, as the best studies and theories usually frame well-established ideas in useful and simple ways or are well-crafted extensions or blends of existing and established ideas. He added, "Most claims of originality are testimony to ignorance and most claims of magic are testimony to hubris."<sup>1</sup>

As I began reading Keller and Meaney's book, I expected the usual boasts of originality and magic. I found none. Instead, as the subtitle says, this book unpacks "Ten Timeless Truths" that have proven to be crucial to the success of the organizations and leaders that McKinsey & Company has observed and advised since World War II. This is the rare

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business book that follows “Pfeffer’s Law,” which is spelled out in the book I co-authored with Jeffrey Pfeffer, a fellow Professor of mine at Stanford, and on evidence-based management: “Instead of being interested in what is *new*, we ought to be interested in what is *true*.”<sup>2</sup> Yes, the advice here is shaped by the latest (and, especially, the greatest) evidence and experience that the authors could muster. Yet this book is devoted to leadership topics that will “be as helpful to leaders today as they would have been forty years ago, and will be forty years from now.” Consider the timeless and vexing questions that Keller and Meaney tackle ahead. Leaders in every era have struggled, and will struggle in the future, with questions such as: “How do I improve the quality and speed of decision-making?” and “How do I make culture a competitive advantage?” Keller and Meaney not only focus on what is true rather than what is new; they concentrate on the ten topics that are most essential to the enduring success of organizations and their leaders.

I was also taken with the “user-friendly” structure, content, and prose in this book. Keller and Meaney help the reader by dividing their insights about each of the “Ten Timeless Truths” into sections on “why is this important,” “what are the big ideas,” and “how do I make it happen?” The content in each section is carefully curated. On topic areas where I’ve done work—organizational change, for example—I am struck by the overhyped nonsense and trivia that the authors have elected to leave out. They zero in on the essentials instead. In the chapter on leading successful transformational change, for example, they dig into the few key lessons that matter most—such as how to double the odds of success and the importance of being rational about being irrational. Finally, one of my pet peeves is that business writing and presentations (especially those by academics and consultants) are too often littered with hollow and soul-crushing language. This book has a refreshing absence of what author Polly LaBarre describes as the curse of “jargon monoxide.”

After I read the book, and fretted about it for a few days, I realized that Keller’s and Meaney’s “Ten Timeless Truths” are so easy to digest and so useful because the authors and their colleagues have observed so many leadership

successes and failures over the years—and had so much practice passing what they’ve learned to others. Their journey reminded me of *Profound Simplicity*, a book by psychologist William Schutz that shows “understanding evolves through three phases: simplistic, complex, and profoundly simple.”<sup>3</sup> I find *Leading Organizations: Ten Timeless Truths* to be a lovely example of such profound simplicity. I hope you enjoy it as much as I did.

Bob Sutton  
January 2017

**ROBERT I. SUTTON** is a Professor of Management Science at Stanford Engineering School, organizational researcher, and bestselling author. He has written over 100 academic articles and chapters, over 1000 blog posts, and six management books—including his most recent, *Scaling Up Excellence*. He has recently been voted one of the top 10 “Leaders in Business” by the American Management Association (AMA) and one of 10 “B-School All-Stars” by *BusinessWeek*.

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# TALENT DEVELOPMENT: AT A GLANCE

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## WHY IS IT IMPORTANT?

- You can't buy enough of it, so you have to build it.
- Most companies struggle to do it well.
- Companies need to do more of it as skills decay faster.



## WHAT ARE THE BIG IDEAS?

- Go far beyond the classroom and the computer.
- Make it personal.
- Focus on strengths and stretch.



## HOW DO I MAKE IT HAPPEN?

- Follow a five-step process to develop the talent you need.

### ***Most commonly neglected action in each step:***

**Aspire:** Focus on capabilities needed to deliver the strategy.

**Assess:** Understand the efficacy of current approaches.

**Architect:** Involve business leaders (not just HR) in design.

**Act:** Ensure managers of participants have a role.

**Advance:** Link learning to retention mechanisms.

# 3

*Chapter*

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**How do I manage  
performance to unlock  
our full potential?**

## Performance Management:

# A TIMELESS TOPIC

**YOU'RE A POLITICIAN** with great ambition, so much so that you are considering a run for Prime Minister. You've got plenty of experience in public service to draw on, but want to learn more about the role and how to be successful. You proceed to have a look on-line, reading through summaries of the various texts available for purchase. One in particular catches your eye. It talks explicitly about the role of the Prime Minister. It details a process for defining departments, allocating responsibilities among them, and creating procedures to help them stay connected to their work. It also describes in detail how to reward performance through promotion, compensation, and recognition, as well as the use of fines, removal from office, and reprimand when things aren't going well. "Perfect," you think to yourself. Then you look at the title: *The Officials of Chou*, and realize it was written in 1100 B.C.!<sup>1</sup> Hmm, perhaps not the best place to start...

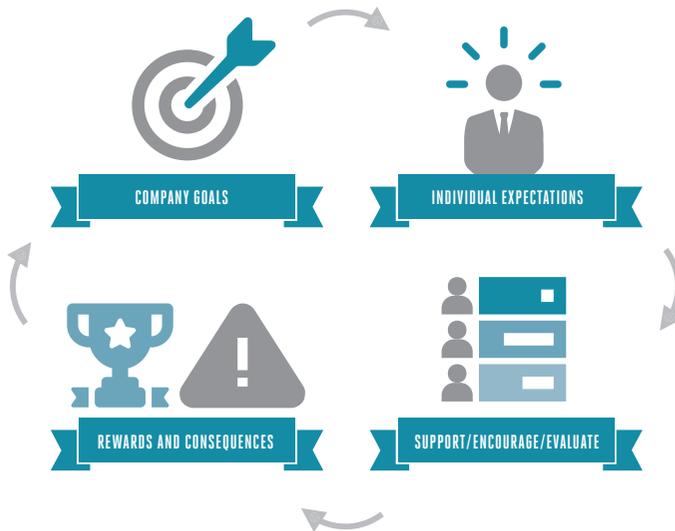
While a 3,000-year-old manuscript from China's Chou Dynasty may not suit our needs in the scenario above, its existence proves that performance management has long been part and parcel of managing organizations. By performance management we mean the process by which individual performance expectations are set, in alignment with company goals, and progress against those expectations is supported, encouraged, evaluated, and rewards and consequences administered accordingly.

The modern history of performance management traces its roots back to the Industrial Revolution. The first

industrial application of a merit-based rating system was introduced in cotton mills in Scotland in the early 1800s. Wooden cubes of different colors indicating different degrees of merit were hung over each employee's work station. As performance changed, so did the appropriate wooden cube.<sup>2</sup> By the early 1960s, it was estimated that more than 60 percent of American organizations had some kind of established performance management system<sup>3</sup> and, by the 1980s, virtually all large companies had some formal process in place.

Over the last three decades, practices have evolved to strike a better balance between being backward- and forward-looking, and to complement financial rewards and consequences with a fuller set of motivators. This period has also seen the rise—and the beginning of the fall—of time-intensive, forced-ranking approaches used to differentiate performance. The goal of these approaches was to increase employee motivation to excel, but the cumulative result has been the opposite, as the actions of iconic companies such as GE and Microsoft have acknowledged through their wholesale abandonment of them.

Today, headlines such as “The End of Performance Management”<sup>4</sup> would have you believe that, in spite of three millennia of evolution, this practice may become extinct. We disagree. Let us explain why...



*Performance management is the process that links company goals to individual performance expectations and motivates delivery against those expectations*

Why is it important?

# DONE WELL, IT DELIVERS RESULTS



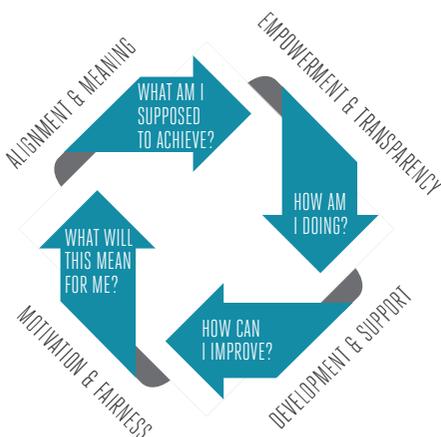
**WHY DOES PERFORMANCE** management matter? American College Football coach Mick Delany sums it up in his inimitable way, “Any business or industry that pays equal rewards to its goof-offs (low performers) and eager beavers (high potentials) sooner or later will find itself with more goof-offs than eager beavers.”<sup>5</sup> Case closed? It’s a strong argument, but in fact there are far more reasons to ensure your organization is characterized by good performance management.

Management guru Peter Drucker is in many ways the father of modern performance management. In his 1954 book, *The Practice of Management*, he popularized the process of what he called “Management by Objectives” (MBO). MBO starts with collaboratively translating your strategy into objectives that can be cascaded down the hierarchy, answering the employee question, “What am I supposed to achieve, and why?” It then measures progress against a desired outcome, answering the employee question, “How am I doing?” By prescribing the desired outcome but not the specifics of how to achieve the outcome, it empowers employees to bring their full creativity and capability to bear. Moreover, it provides tools and guidance as to how employees can progress faster towards better and more sustainable outcomes than they otherwise might, answering the employee question, “How can I improve?” Finally, it provides rewards and recognition and administers consequences fairly based on the achievement of the relevant objectives, answering the

employee question of “What does this mean for me?” In total, the process is meant to create a fair and transparent “cause and effect” result commensurate to each employee’s part in executing the business’s strategy.

At this level, it’s not hard to see why the numerous well-regarded companies, such as Hewlett-Packard (HP), DuPont, and Intel, adopted and adapted Drucker’s model and found it to be an important ingredient in their success.<sup>6</sup> It’s also no surprise that researchers have found that when leadership have high commitment to this type of performance management, their efforts deliver an average gain in productivity of 56 percent vs. 6 percent when commitment is low.<sup>7</sup> In our research, we’ve seen that companies that achieve top quartile accountability using such approaches are 1.9 times more likely to demonstrate above-median profits.<sup>8</sup>

Clearly, then, the business case for good performance management is strong. But you knew that. As do the 94 percent of leaders who, when surveyed, agree that it is an important driver of business performance.<sup>9</sup> And the basics aren’t rocket science—in fact, when asked how to execute a strategy, most leaders recite a remarkably similar formula to the four elements described above.<sup>10</sup> So why is it that in 2015 CEOs ranked “improving our performance management processes” as their most important human capital strategy?<sup>11</sup> For that, you’ll have to read on...



OF LEADERS BELIEVE  
PERFORMANCE MANAGEMENT  
DRIVES BUSINESS PERFORMANCE



ABOVE-MEDIAN PROFITS  
ARE ACHIEVED BY ORGANIZATIONS  
WITH HIGH ACCOUNTABILITY

*Anatomy of a  
well-functioning  
performance  
management  
process and its  
benefits*

*Why is it important?*

# WHAT MOST COMPANIES ARE DOING **ISN'T WORKING**



**A RECENT DILBERT CARTOON** (the comic strip by Scott Adams that portrays workplace mismanagement in a humorous manner) starts with the pointy-haired boss stating to an audience of engineers, “Every company needs goals. We have division goals, department goals, district goals, personal goals, and affiliate goals. You will attend a four-hour training session on how to write goals. Every week you will report on how you are doing compared to your goals. Those goals will be entered into a giant database...” Dilbert, one of the engineers, interrupts with a question, “Won’t the size and complexity of the database make it impossible to know what’s really happening?” The pointy-haired boss deadpans back, “Yes, that’s why your raises will be based on what you look like.”

This satirical portrayal of office life reveals the tragedy of contemporary performance management. It’s no longer what Drucker would call a “practice of management,” but instead it’s typically a complex, bureaucratic process administered by Human Resources. The result? In most companies it does not improve performance. If anything, it lowers it.

How do we know? Because only 29 percent of employees report that the current approaches effectively support the delivery of business objectives, 73 percent of employees report they have not seen practices move from a focus on paperwork to a focus on conversations, and only 8 percent of employees believe that their managers are highly skilled at ensuring that evaluations are fair and equitable. Most

telling, however, is that 89 percent of employees believe their performance would significantly improve if their company's approach to performance management were changed.<sup>12,13</sup>

None of this is happening by intention, of course. Multiple factors have contributed to this situation becoming the reality. The sheer size of companies has prompted the adoption of a homogenous approach in the spirit of fairness, creating a proliferation of metrics, and making the absolute time spent on the process enormous. The advent of the matrix organization, aimed at capturing economies of scale and skill, has made it far more difficult to trace cause and effect. An increasing desire not just to measure and manage outcomes but also leading indicators such as attitudes, behaviors, and potential has further proliferated metrics and watered down the importance of any one metric in the process. Advances in technology that enable massive amounts of data to be stored and accessed have increased the bureaucracy of inputs and complexity of outputs, and caused people to lose touch with "why?" Finally, increasingly litigious societies have resulted in the need for excessive documentation and organizing the process around the once-a-year event of adjusting compensation versus an on-going dialogue.

The Dilbert cartoon we opened with is amusing. Considering that the costs of today's performance management approaches are estimated at \$35 million a year for a company of 10,000 employees,<sup>14</sup> the reality is just plain depressing. Fortunately, this isn't the end of the story...



*Perceptions of performance management in practice*



"Yes, everyone really does hate performance reviews"  
*Wall Street Journal*



"WOW!! I'm so excited for my performance appraisal today..."  
No one ever said

*Why is it important?*

# MORE IS KNOWN ABOUT WHAT WORKS THAN EVER BEFORE

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**YOU'VE BEEN EYEING** that leather sofa for the family room, but at full price it's \$3000. That just feels like a lot to pay for a couch, so you're sticking with what you've got. Meanwhile, at the car dealership you're negotiating the purchase of a new family car. The car itself is \$40,000, but they've said they'll throw in leather seats, which would normally cost an extra \$6,000 for half price. Sold!

Why are we happy to spend a small fortune during sales, but reluctant to pay so much for full-priced goods? It's the same reason most people would be fine with taking a pencil from the office for their child to use at school, yet be shocked if they heard that someone raided the petty cash drawer to buy their kid's school supplies. The answer comes from cognitive psychology—as humans we are “predictably irrational;” i.e. we have predictable modes of thinking that don't abide by what would generally be considered “rational.”

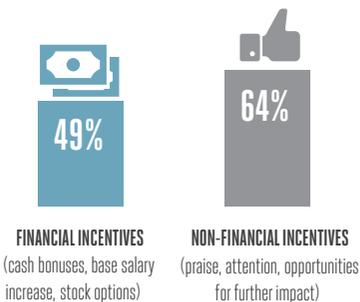
This is important to performance management because, during the 1950s, when Peter Drucker wrote about MBOs, the predominant branch of psychology was behaviorism—your environment, and in particular rewards and consequences for actions, drive the behaviors you choose. Cognitive psychology, which came to prominence only in the late 1960s, looked beyond stimulus and response into the examination of the mental processes that underlie our decision-making—revealing that humans don't always behave rationally. This finding dramatically altered economic theory, creating the branch of behavioral

economics, and is ripe for the picking to improve how performance is managed.

Take for example the finding that small, unexpected rewards have a more significant impact on motivation versus annual bonuses, which themselves have little impact except in relation to tasks that consist of basic, mechanical skills.<sup>15</sup> Or the finding that intrinsic motivation (meaning, autonomy, mastery) drives higher performance than extrinsic motivation (financial or emotional rewards and punishment)—and actually diminishes when extrinsic motivators are increased.<sup>16</sup> Add to these the findings that we discuss elsewhere in this book such as how employee involvement during the process creates disproportionately more commitment to the outcome (see Chapter 9), how focusing on leveraging strengths creates far more energy and enthusiasm than addressing weaknesses (see Chapter 2), and that if employees feel the *process* isn't fair their demotivation is stronger than if they feel an *outcome* is unfair (which we will discuss later in this chapter).

These learnings account for why Dan Pink, in his best-selling book, *Drive*, famously proclaimed, "Carrots and sticks are so last century."<sup>17</sup> We only partially agree. In our view, the basics were never broken—just strayed from over decades. The secret sauce lies not in abandoning the behaviorist approaches (pushed by those professing that the end of performance management is upon us), but in augmenting them with techniques derived from the cognitive view. Like the yin and the yang, the seemingly opposite approaches can reinforce one another to fully unlock latent motivation in the workforce.

% OF RESPONDENTS ANSWERING  
"EXTREMELY" OR "VERY EFFECTIVE"



"Human beings have an innate inner drive to be autonomous, self-determined, and connected to one another. And when that drive is liberated, people achieve more and live richer lives."

Dan Pink, *Drive: The Surprising Truth About What Motivates Us*

*Effectiveness of financial and non-financial incentives*

What are the big ideas?

# HARMONIZE COMPANY AND EMPLOYEE MOTIVES



**THE HISTORY** of parenting in Western societies is instructive for performance management. For the majority of the twentieth century, an *adult-centered* approach to parenting was the norm. This approach resembled traditional performance management to the extent it held that parents should exert their legitimate authority over their children: set goals, guide and direct their child's development, and administer consequences to improve behavior. Too many children brought up under these conditions found themselves entering adulthood feeling resentment, lacking in confidence and self-esteem, and too often trapped into life paths for which they have little passion. So they fought back.

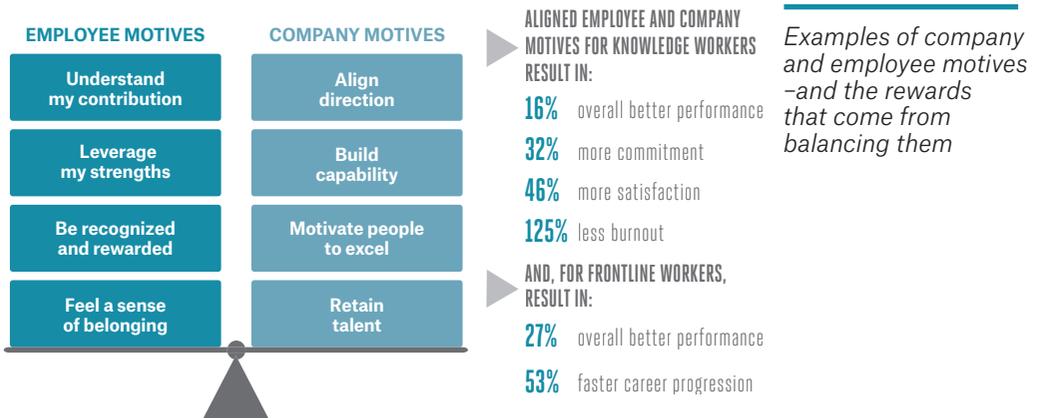
Enter the era of *child-centered* parenting. In this model, children aren't lumps of clay to be molded, but are free to be active in their own development and learning. Parents are meant to be "a guide on the side" rather than an all-knowing "sage on the stage." Doing so, the promise has been that children will grow up with a strong sense of individuality, creativity, and purpose in their lives—and as such achieve their full potential. Unfortunately the results haven't lived up to the promise, with too many children ending up narcissistic, entitled, and lacking the capacity to persevere and cope with difficulty.<sup>18</sup>

In a similar fashion, the pendulum has swung from *employer-centric* approaches to performance management to *employee-centric* approaches. Filled with good intentions, business leaders and HR professionals are now

swinging the pendulum to no performance ratings, no peer comparisons, just anxiety-free continuous development conversations to help employees pursue their passions. We fear that these leaders, and their employees, will end up just as disappointed as the parents and children who swung the analogous pendulum mentioned in the example above.

We urge companies to solve for company and employee goals simultaneously. Goals should be set with career aspirations and passions taken into account (employee-centric), but they also need to drive forward the priority business strategies of the company (employer-centric). Individual strengths should be recognized and developed and support given to achieve goals (employee-centric), but skills built should be part of a broader institutional capability-building aspiration and should reinforce company values and culture (employer-centric). Rewards should be fair and meaningful, and include the potential for shaping one's career path (employee-centric), but incentives must reflect achievement of outcomes, retain high performers, and not let lower performers damage results or block the career progress of those more talented (employer-centric).

As companies making employee-centric overhauls to their performance management systems are in the early stages of change, only time will tell if our parenting analogy will hold true. In the meantime, we are confident those that pursue the "middle way" described above won't be disappointed.



*What are the big ideas?*

## SOLVE FOR **FAIR PROCESS**



**FAIRNESS MATTERS.** A lot. And as we mentioned in a previous section—not just in relation to an outcome, but also in relation to the process to get there.

To explain what we mean, consider what are called “Ultimatum Games”: Player A is given a sum of money. Let’s say US\$10. Player A is to share the money with player B, and is free to determine what split of the money will be offered. Player B can then accept or reject the offer from player A. If accepted, both players get to keep the agreed share of the money. If player B disagrees, no one gets any of the money. If the money is split equally, in 100 percent of cases player B accepts the terms. But what if player A offers to keep \$7.50 for themselves and give \$2.50 to player B? In these cases, more than 95 percent of the time the offer is rejected. To punish player A for being unfair, player B forgoes the opportunity to make money. This isn’t just a function of small sums, either. The same dynamic has proven to be true with the equivalent of two weeks of pay.<sup>19</sup>

Is it fair for high performers who create disproportionate value for a company to be rewarded more than average or low performers? Most would say yes. Is it fair to smart, hard-working, well-intentioned employees that lazy, ill-intended employees who make poor decisions are not dealt with? Most would say no. This line of thinking is what led to the rise of forced rankings in performance management. Pioneered over the twenty years Jack Welch ran GE (during which time earnings increased 28-fold), the approach

is used by over half of the Fortune 500.<sup>20</sup> It requires a portion of employees (typically following a bell curve) to be ranked in specific performance categories—for example, “top,” “good,” “fair,” “poor,” “unacceptable.” Rewards and consequences are then commensurate with one’s rating.

While on paper forced ranking seems fair, in practice it has proven quite the opposite. Rankings are seen as political exercises by leaders fueled by employees’ self-promoting behaviors. Risk-taking is avoided, creativity squashed, and individual survival put ahead of collaboration and company success. Because of this, an estimated 10 percent of Fortune 500 companies, including Adobe, Accenture, Gap, Medtronic, Deloitte and, yes, GE, have all very publically abandoned the process.<sup>21</sup> Some have gone so far as to abandon performance rankings all together.

This has us concerned that in a few years we’ll be back to the same state that prompted the rise of stacked rankings to begin with. We believe people aren’t against being evaluated and, in fact, they *want* to know where they stand. They just want the process to be fair. They want a process that differentiates without false precision, that is both forward- and backward-looking, that happens far more frequently than once a year (but not so much as to create feedback fatigue), that involves an honest, two-way conversation, that is based on more data and input than just the boss’s view, considers not just what was achieved, but also how and links rewards and consequences to performance.

Easier said than done...yet easier to do once said!



- ✓ Real differentiation without false precision
- ✓ Backward- AND forward-looking
- ✓ Continuous feedback without creating fatigue
- ✓ Honest two-way conversations
- ✓ Diverse inputs (data, customer/peer input, etc.)
- ✓ Outcomes (what) and behaviors (how) both valued
- ✓ Rewards/consequences linked to performance

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*Important features  
of a fair performance  
management process*

*What are the big ideas?*

# PUT **SKILLS FIRST**, NOT SYSTEMS AND DATA



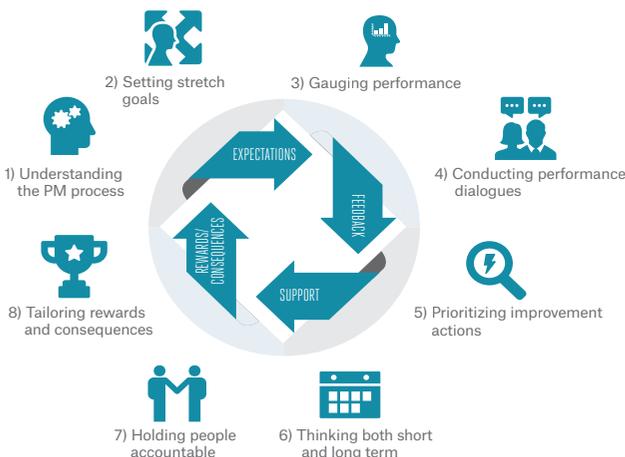
**AT THE STROKE OF MIDNIGHT** on May 20, 2002, East Timor became a fully independent country after three years of UN presence. China was the first country to establish diplomatic relations and, in doing so, upped its pledge of reconstruction aid to the country to US\$16 million. While this and other aid has no doubt been put to good use, when one of the authors of this book, Scott, an avid traveler, visited the country some five years later he heard a different story. His guide told him the reality on the ground hadn't changed since the birth of the new nation, primarily due to the poor transport infrastructure. Later that day they came across a field full of bulldozers, compactors, jaws, and all manner of heavy construction equipment ideal for road-making. The field was overgrown, the equipment rusting and a few local children used it as a giant yellow playground. "What's all this?" Scott asked. "Equipment donated from China," came the response. "What's wrong with it?" His guide replied, "Nothing, but no one trained us how to use it."

Talk to many HR professionals today about performance management in their organizations and they'll typically share not only an employee-centric view that moves towards no ratings, but also one that is full of technological bells and whistles. New human resource management (HRM) software makes things more accurate and streamlined, and leads to better decisions and feedback, they'll say. Social and mobile recognition tools will enable more precise, frequent, and motivating feedback. Predictive analytics on

data from wearable technology will reveal new insights into how to do the job, and coach the job, well. And so on.

While technology is no doubt bringing positive changes, we suggest leaders direct the majority of their focus to skills, not systems and data, or we fear an East Timor-like investment in technology will bear little fruit on the ground. For example, no amount of technology is needed to make leaders good at helping employees set stretch goals that are motivating to them, conduct a two-way performance dialogue that identifies strengths and helps employees see how they can be used to overcome weaknesses and improve performance, and know how best to tailor messages and consequences in ways that will maximize motivational impact.

The leaders who are good at these things are probably already doing them today, and those that aren't won't change because of a new system. Recent studies of companies newly operating without ratings reveal that performance conversation quality declines by 14 percent, managers spend on average ten fewer hours having informal performance conversations, top performers' satisfaction with pay differentiation decreases by 8 percent, and overall employee engagement drops by 6 percent.<sup>22</sup> The root causes of these negative impacts all relate to managers' discomfort and lack of skill in working without old crutches (e.g. many don't know what to talk about if not justifying a rating and commiserating about the system that created it). And here our chapters on performance management and talent development collide!



*Example capabilities required to manage performance effectively*

*How do I make it happen?*

# FOLLOW A **FIVE-STEP PROCESS** TO PUT IN PLACE THE RIGHT APPROACH



**THE LEADERS OF** a European insurance company felt great about their strong market leadership, healthy financial performance, highly respected brand, and deep customer focus. They were shocked, therefore, to find out in an employee survey that the motivation scores of the workforce, in particular those of middle and lower management, were in the fourth quartile. Digging deeper into the data they saw that the issues were centered on the performance management process. In particular, reviews and the link between performance and rewards/consequences were seen to be broken. The senior team rightly worried that were this to continue then all that they were feeling good about could quickly slip away, and therefore embarked on an effort to transform the performance management process.

## *1. Aspire*

**THE FIRST ORDER** of business was for the CEO and senior team to fully align on the overall objective, and the guiding principles for the work to come. In order to facilitate these decisions, a working team pulled together a high-level set of choices for the top team to discuss. For each choice, where the company was today on each dimension was clearly laid out, as well as what other peer companies had chosen and what the relative trade-offs were. When the time came for discussion, getting alignment on the overall objective was relatively straightforward: everyone agreed that this wasn't

just about fixing the pain points identified in a survey, but about ensuring the performance management process was unlocking business benefits and enabling them to attract and retain talented employees. They also agreed that the administrative burden needed to be kept to a minimum.

Working through the principles sparked more debate, however. How much weight should be given to past performance vs. future development? How should stretch versus base targets be used, if at all? Should ratings be used and, if so, how much differentiation in ratings should be forced into the system? What role should non-financial rewards and recognition play versus financial compensation? Who should drive the review process, the manager or the employee? How broad should the inputs to the process be? How frequently should performance management conversations happen, and what would their relationship with annual compensation decisions be? All of these questions and more were discussed and ultimately decided upon—giving the working team a clear direction for the next phase.

### Aspire Where do we want to go?

**Strategic objectives:** Clearly define key objectives for the performance framework in line with aspirations and business demands

**Design choices:** Address key questions in strategy and design, target setting, performance evaluation, and consequence management

**Leadership model:** Distill the leadership implications of all of the above into clear expectations of leaders

## 2. Assess

**THE WORKING TEAM** then took the decisions made on the high-level principles and dug deeper into the current state—looking beyond what was happening into why it was happening for the areas in need of change. A closed-file review of the last three years of ratings showed that in the company’s five-point rating scale, 95 percent of managers had been rated “above average” and that the rating of “below average” was literally never used. Digging into why, the team discovered that the pride taken in the friendly,

approachable, “family” culture made leaders feel like a low rating was against the values of the company—everyone had something to offer (and firing someone for low performance was unheard of). What’s more, those with average ratings were harder to move into other areas, so giving subordinates such a rating was essentially sentencing oneself to forever work with lower performers. The working team quickly realized any changes couldn’t just take the form of process, but also needed to include a substantial shift in managers’ mindsets and capabilities to motivate employees, to coach and develop through performance dialogues, and to be willing to differentiate and apply real consequences (both positive and negative) based on performance.

The findings were reviewed with the senior team, who themselves had to face the fact that feedback had not just come from middle managers lower down in the organization, but also from their direct reports—for things to change, they had to change. Before moving to the next phase, the top team engaged in a remarkably open discussion about how they themselves avoided tough conversations, worrying that these could irreparably damage relationships. They also acknowledged for the first time that they didn’t really know what real performance dialogues looked like, and how—despite talking a lot about how important an open and direct culture was—theirs was far from it.

### Assess

How ready are we to go there?

**Process diagnostic:** Analyze processes for efficiency and effectiveness against benchmarks and best-practice examples

**Feedback review:** Conduct a closed-file review of performance appraisals to determine strengths and weaknesses of current approach

**Change readiness:** Determine gaps between current and desired mindsets and skills

## 3. Architect

**ARMED WITH** the above, the working team went to work on the detailed design of the new approach, including all of the capability building and change management that would be required to make it work in practice. Through

the course of multiple working sessions that included significant input from all of the major business units and representation from different levels of the organization, the team settled on a four-part model. The first part, answering the question, “What do I need to achieve?”, set both base and stretch targets based on one’s strengths. The second part, “How am I doing?”, would regularly assess team and individual performance. The third, “How can I improve?”, prioritized improvement opportunities for both the short and long term. The final part, “What does this mean for me?”, would hold people accountable and ensure real, differentiated rewards for good and bad performance.

Each step of the process was accompanied by a set of tools, capability-building modules, and a delineation of helpful versus harmful mindsets. For example, for the first step, leaders were equipped with tools that ensured no more than 5–7 performance indicators would be part of the process (previously there were twenty or thirty a manager was held to, making each individual indicator largely meaningless), and that the link to the company’s overall business objectives was specified. Capability-building modules were created to teach leaders how to identify strengths and use them to set tough but doable stretch goals. The existing mindset of “I need to get into the detail or I will lose control” was called out and an alternative, more helpful mindset of “the more I empower my team, the more likely they’ll outperform” suggested, with evidence to back up its efficacy.

### Architect

#### What do we need to do to get there?

**Detailed process design:** Outline the end-to-end process across the four elements, testing for simplicity and clarity

**Stakeholder engagement:** Map stakeholders and plan how to bring them on board with aspirations and new process design

**Mindsets & capabilities:** Flesh out plan to shift to needed mindsets and behaviors

## 4. Act

**ONCE THE** new approach was designed, it was piloted in two areas. First the top team participated in a series of workshops

where they simulated a full year's performance cycle in order to fully understand and get upskilled in the new system. As part of the process, actors role-played good and bad performance conversations, and pushed leaders well out of their comfort zone to practice what the new dialogue should look like. At various milestones throughout the year, the leaders applied the new approach with their teams, who then provided feedback on what worked and what didn't. The top team's role-modeling sent a powerful signal to the broader organization, so much so that stories quickly spread as to how things were already changing down the line, even though the new system hadn't been formally rolled out.

The second pilot was run in HR, the thinking being that the HR team would need to provide support for the full roll-out and therefore needed to be upskilled in advance. Finally, scaled-down pilots of various parts of the process were conducted in a shortlist of locations and businesses to refine them and ensure they would translate into various cultural contexts.

### Act

#### How do we manage the journey?

**Test, learn, and scale:** Pilot approach in controlled setting, distil learnings, adjust approach, and scale

**Business-led governance:** Ensure implementation is seen as business-led and overseen by a body with clear decision rights

**Communication:** Ensure expectations are clear, processes are transparent, and feedback can be given

## 5. Advance

**AFTER EACH** pilot, HR surveyed both managers and direct reports to assess the results and capture learnings and, more longitudinally, the Finance department kept a close eye on performance trends. The CEO reached out informally to key leaders for first-hand feedback and shared his personal excitement in leadership summits and other high-visibility events. At the end of the pilot period, the new approach, with some refinement, was deemed a win for both employees and for the bottom line of the business and so it was rolled out to the entire organization for the

next full performance cycle, with the HR function acting as coaches. Throughout the rollout, pulse checks were used to gauge implementation success. Simultaneously, care was taken to embed the desired new skills and mindsets into all people processes, e.g. hiring interviews, CV scanning, and other recruiting initiatives, onboarding, and training. Importantly, part of the design was that the evaluations of managers explicitly took into account how well they managed performance in their teams, and how well they coached their leaders to do the same.

### Advance

#### How do we keep moving forward?

**Monitor impact:** Keep close tabs on changes in performance and what can and can't be attributed to the new process

**Ensure engagement:** Regularly gauge managers' and employees' experience with running the new system

**Institutionalize:** Link to all aspects of performance culture including recruiting, onboarding, and talent management

**TWO YEARS AFTER** the initial employee survey that set the changes in motion, the senior team was delighted to see survey results indicated that motivation scores were on the rise across the board and that performance management in particular had gone from a performance demotivator for employees to a pride point, and one that helped them deliver more, better, and faster business results. A particularly positive, and somewhat unexpected finding, was that the shift from everyone being rated the same on a 5-point scale to ensuring real differentiation happened across a 3-point scale was seen as a great step forward by all but very few. Even those who ended up with lower ratings by and large indicated that they preferred knowing where they really stood and having an honest conversation than getting no real input at all. Outside of survey measures, the team also noted that voluntary attrition ("regretted departures") was now at an all-time low and, most importantly, business performance was stronger than ever.