Trouble with the Curve: Performance-Management ROI

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By John Boudreau

When it comes to your employees' performance, where does your organization spend most of its time? Too often, the answer is, "debating performance management processes or systems."

Should we evaluate performance once a year or more often? Should we rank employees, rate them, or eschew any ratings at all? Should we include information from a "360-degree" circle of superiors, co-workers, peers and even customers? Should we automate the system and adopt whatever approach is embedded in our new HR information system? Should we have a "9-box" grid to plot both performance and "potential?"

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These are questions about how you do performance management, and they can be important. But excessively fixating on them can obscure more fundamental questions about what employee performance creates value for your organization. Ask yourself: What is our return on improved performance (ROIP)? It can help you picture the return from improving employee performance and competence, similar to how you picture the return from traditional improvement arenas like financial investments and technology.

A key to visualizing the return on improved performance is to think in terms of curves. In the movie "Trouble with the Curve," an aging baseball talent scout (Clint Eastwood) observes a player that can't hit a curve ball. In the real world, I find that many leaders, managers and employees miss important performance issues and miscommunicate because they have trouble with performance curves. That can lead to very different ideas about performance alignment and value. Such differences cannot be fixed by improving the performance-rating form or schedule. You must get at the root of the different perceptions about performance value.

Fortunately, there are already tools for revealing performance curves. For traditional resources like technology and money, the return on improved performance is often analyzed using curves like this one:
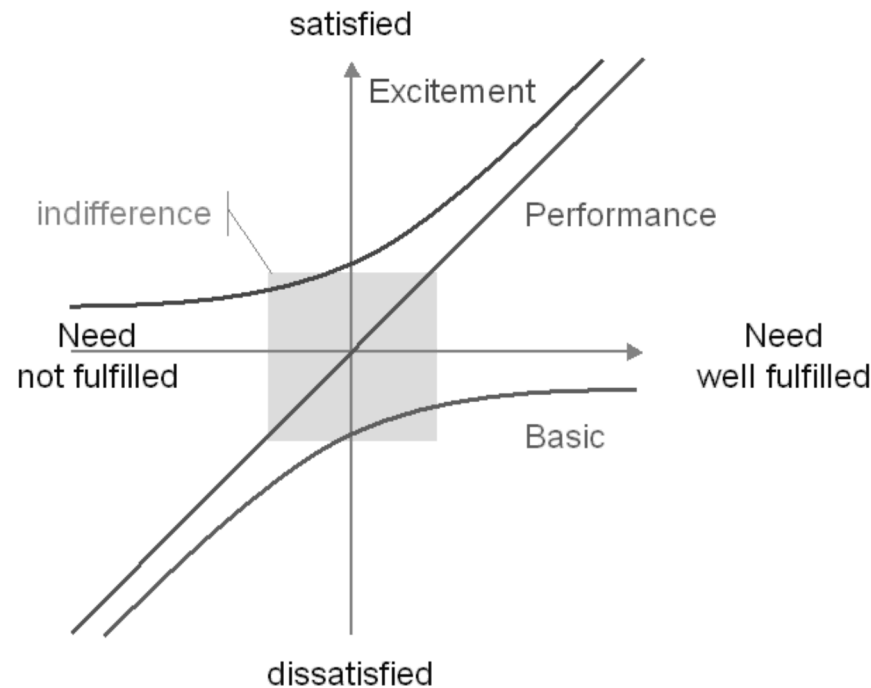
It's called a Kano diagram, a standard in engineering. The horizontal axis is performance, and the vertical axis is value to

customers or the organization. The diagram shows three general examples of typical curves: "basic," "performance" and "excitement."

Basic elements have value because it is important they not be missing or faulty, but once they are good enough, there's little value in improving them, as is the case with, say, a twist-top on a drink bottle. Performance elements have value in that making them better creates constant improvement, such as the drink manufacturer's per-ounce cost of the drink. Excitement elements are unexpected, so while their absence or poor performance doesn't dissatisfy, having them creates a "wow" factor, such as being the first to achieve the same taste in the drink and at the same price but with zero calories.

Such curves can also apply to employee performance in a role or job. Let's take a sales job. A "basic" element might be the recordkeeping and paperwork, where there's value in getting it in on time and complete, but doing so very early or striving to make it as visually appealing as possible has no additional value. A "performance" element might be visiting potential clients: the more it is done, the more the value, and vice versa. An "excitement" element might be deeply understanding the particular problems of an individual client. Clients doesn't expect it, so if it's not there, they don't mind, but they are wowed if they see it.

Performance-rating processes and discussions often miss these nuances. Your performance system probably includes multiple performance elements — "key performance indicators" or "competencies" for each job. The managers say, "Do a great job,"

and the employee thinks that means make the paperwork perfect and get it in early, go on the maximum sales visits, and deeply know every clients' special problems. Yet the best return may be achieved by letting the paperwork be a bit less perfect, and concentrating on sales visits. For those that master their sales visits, you encourage them to go for the "wow" factor of deep customer knowledge, but not until they've got the basic elements up to standard and are well up the curve on the performance elements.

You can create these curves using actual performance data such as sales calls, customer ratings, errors, etc. But even in jobs where you don't have precise data about performance and value, managers and employees can simply draw the general shape of the curves as they perceive them. The differences between manager and employee perceptions can be enlightening. You can also get clues about whether the things that managers and employees perceive as more vital actually get rewarded.

Four curves matter:

Curve #1: Actual ROIP, which can tell you where the real value gets created.

Curve #2: Perceived ROIP in the minds of your employees, managers and leaders, which can help you discover where different perceptions may explain confusion and miscommunication.

Curve #3: Performance consequences and rewards, which tell you whether your incentives line up with value. I find that organizations often under-reward "wow" factors because they are reluctant to seem "unfair" to the highest performers, or they over-

reward good performance on "basic" factors like paperwork, causing employees to spend too much time there. "Ranking and yanking" the bottom 10% might make sense for "basic" factors where poor performance is very costly, but not for "excitement" factors, where the focus should be on finding and celebrating the very top performers.

Curve #4: Performance distribution, which is how many employees (or job applicants) there are at each performance level. Most systems assume lots of people fall in the middle with far fewer at the extremes, but research suggests that sometimes the vast majority fall below the average, and it is the top few that provide most of the performance value. This makes a big difference in how you optimize your recruiting, training and rewards.

"Trouble with the curve" in performance management can lead to miscommunication, missed opportunities and lost value. Consider "throwing a curve" into your next performance discussion.

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