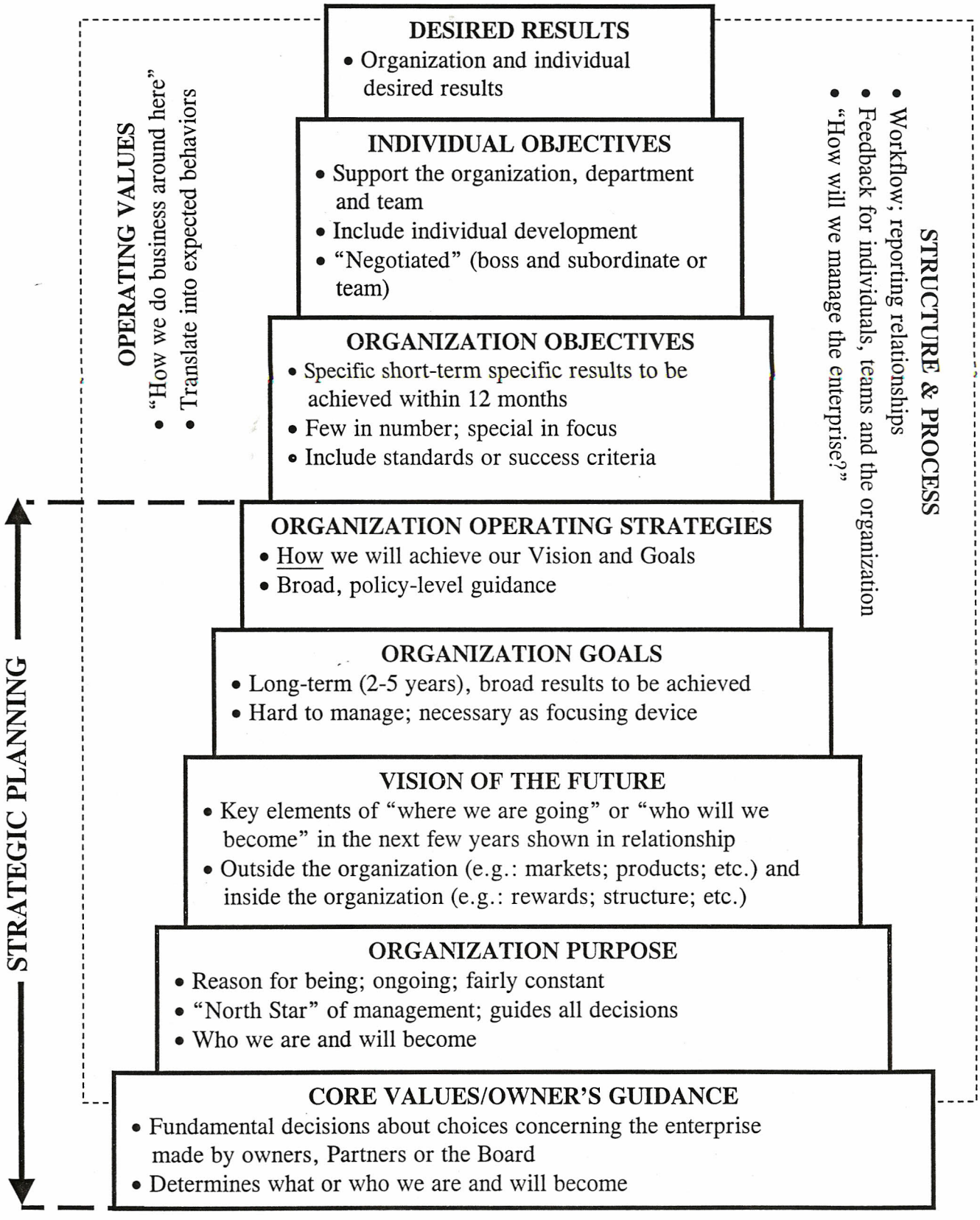
PERFORMANCE MANAGEMENT SYSTEM



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Core Organization Values

There are two important ways to look at values in an organization.

The first is the role that "core values" play in determining the purpose of the enterprise. These values are decisions about choices. They largely determine the products and services to be offered, the markets to be served, ownership of the enterprise (e.g., public, private, employee ownership, etc.) and other key decisions shaping what the organization is to be.

These are the values motivating founders or owners of privately held companies or the values motivating board members of publicly held companies.

Examples of "core organization values in action" would include a steel construction company deciding not to acquire a trucking subsidiary but to stay focused only on the fabrication and placement of steel reinforcement products because the owner wanted to "stick with what we know"; a credit union deciding it would eschew growth and increased profit margins by lavishing attention and market-leading interest rates on a limited membership; a specialty computer software maker limiting development of applications for other industries in order to limit the company's complexity and prepare it for sale. Note that these are "owner" decisions and determine the organization's fundamental reason for being.

Organizational Purpose

A purpose statement is necessary for effective planning and decision making. It is the most fundamental and important decision made by management. An organization's purpose is its "North Star," the primary checkpoint in the guidance system for managing the enterprise. All decisions and actions by all members of the organization must support the purpose.

Although written for people inside the organization, the purpose is outside the organization and must be developed in terms of the customer. To get this view, try putting yourself in the position of your customers or users ... "on the outside looking in" at your organization.

Determining an organization's purpose is not meant to be a bureaucratic exercise. It is a way to focus periodically on exactly why the organization exists. We need to stay constantly aware of who our customers are or should be and what results we produce or should produce for them.

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A Purpose statement answers the questions "What is our business?" and "What should our business be?" It tells us what products or services we will provide, the customers we will serve, how we define our markets, and what our uniqueness in the marketplace will be.

A Purpose statement may be a sentence, a phrase, or a couple of sentences or phrases. It is broad, continuing in nature, and does not change often. It may exist for years and never be fully accomplished. When a purpose is accomplished, there is no longer a need for the organization unless it creates a new purpose.

A completed purpose statement should be brief, stated in results or output terms (instead of activities or inputs), self-explanatory, and be clearly and immediately understandable.

Vision of the Future

The value of a clear, stated, and widely understood vision of an organization's desired future is that it allows people to "see" where they are going and to more readily and effectively commit to helping create that future.

A vision ties core values, purpose, operating values, strategies and goals together and provides increased meaning to all by showing their relationship to each other in a context of the "whole."

A vision may be expressed as a narrative or as independent sentences stating the key elements of the desired future state. Either way it should address "external" elements (i.e.: markets; customers; market positions; major product lines; etc.) and "internal" elements (i.e.,: organization structure; reward systems; organization culture; etc.).

A highly centralized regional construction company may envision itself as becoming a national, decentralized company with an expanded line of services, providing employee stock ownership and moving to a more participative management style.

A local business machine retailer may see itself expanding its branch locations to other cities, adding product lines, and reducing its sales staff by emphasizing more "professionalism" (higher "closing" rates, increased commissions and training, etc.).

Operating Strategy

Strategy tells us how we will achieve our vision of the future or our goals.

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A company may decide to grow rapidly by acquiring other related companies instead of building its own sales over years.

A business/office machine retailer may decide to make little or no profit on the sale of machines in order to get the more lucrative long term service contracts.

A newspaper may decide to print increased "zoned" editions (different editions of the basic newspaper each serving the readership and advertisers of an identifiable geographic market segment) to maintain or increase market penetration.

A geotechnical consulting firm may decide to emphasize the highest professional quality of its staff (requiring higher salaries, bonuses and increased training and development) in order to produce noticeably superior results and command a high premium for its work.

The answer to "how" we will achieve our ends is a critical question for all companies and impacts both line and staff people in all functional areas.

Operating strategies of subordinate units may vary and emphasize different approaches but must, at a minimum, support the broad strategy of the parent organizational element of which they are a part.

Organization Goals

Organizational goals are long-range (usually 1 to 3 years or longer), broad statements of desired results used to focus the entire organization's effort in general directions.

Because they are so broad and long-term in nature, goals are difficult to manage. They are, however, a most necessary and useful step in the process of orienting and integrating larger organizations. And, while difficult to manage, they are manageable which means they can be clearly measured in terms of accomplishment.

Goals, like objectives, should be stated in terms of results or end-state conditions ... not activities.

Goals are future oriented and should focus our attention, effort and resources on major opportunities or major problems. They should be supportable by all or most people in the organization. That is, goals should be able to be broken down into component objectives such that just about everyone can do something substantial to help achieve the goals over time.

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As was the case with purpose statements, try using the results-oriented form of expressing desired goals. Try stating the goal simply in its noun form ... the end-state form or conditions that would exist if the goal were accomplished.

In determining what your goals should be, consider not only what (products or services) should be produced but also how they should be produced (the supporting structure, management philosophies and processes, etc.). The most effective organizations are those that also pay close attention to their internal functioning and development. "How" you achieve results determines in large measure "what" results are actually achieved.

Finally, goals are designed to be published to the entire organization and serve as a major direction-setting device. As such they must be stated in a simple, concise, and clearly understandable way.

Organization Objectives

Organization objectives are specific, measurable, attainable results to be achieved or produced within the planning (fiscal) year. Organization objectives are supportable by all or most sub-organizational elements and individuals.

Objectives should be attainable even though such attainment may require "stretching." Accountability, which is the life-blood of this management process, is difficult to maintain otherwise and cynicism and frustration usually result from unobtainable objectives.

Objectives should be clearly measurable in terms of results. They may be measured quantitatively ("objectively" and very clearly) or qualitatively ("subjectively" and less clearly) but they must be measurable to be most effective. Moreover, this measurement, which is the condition or indicator which must be met for the objective to be satisfactorily achieved, should be written as part of the objective itself. For example, if we want to reduce scrap we ask...

How much?	20%
By when?	End of the Fiscal Year
Attainable?	Yes, with some stretch
Supportable by all or most	Yes
How measured?	Weekly composite scrap report

...and then write the objective as:

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20% REDUCTION IN TOTAL SCRAP BY (DATE), AS MEASURED BY THE WEEKLY COMPOSITE SCRAP REPORT USING THE DATA OF (DATE) AS THE BASE.

Since objectives are our most compelling vehicles for focusing energy and resources, it is critical that they be stated in terms of results. Don't get caught in the "activity trap"...specifying actions or intermediate steps that may or may not give the results desired.

Two very helpful techniques for avoiding the activity trap are:

1. Write your objectives as nouns...not verbs. This is admittedly a subtle difference at first. However, it trains us to think in terms of results or end-states and not actions or inputs.

2. After determining a desired objective, ask why that objective is desired. "We want this so that ___?___." You may find that the answer to this question is your real objective...and the original objective is just one of many possible intermediate steps to get where you really want to be. At some point, asking this question does not yield another definitive and manageable answer...and at that point you have the most effective objective.

Objectives at any level should not deal with "business as usual." We all know that we have to meet plans and schedules already set. We already know we have to stay within budgets and follow Policy and Procedure guidance (or get them changed).

Where elements of job responsibilities are already a matter of written record they should not be rewritten as objectives. Objectives should be few in number and special in focus for the review period. An exception to this rule of thumb is when some business-as-usual item is targeted for special emphasis because it is a major problem or for some other equally compelling reason.

There are basically four types of objectives:

1. Routine duties or results requiring special attention (stated and measured by exceptions as noted in the paragraph above);

2. Emergency or problem-solving objectives (stated and measured in terms of solutions and time);

3. Creative objectives (stated and measured as results against the desired end-states including time);

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4. Unit or personal development objectives (stated and measured in terms of the results desired and time).

These objectives can be used, some or all, in any combination. We do know from research that organizations and individuals who consistently demonstrate the highest relative levels of effectiveness are those that pay attention to their "internal" development. They budget resources (time, energy and money) for improvement through their objective-setting process.

So far we have been discussing the objectives that the organization will be writing publicly. It is also possible that some objectives will be determined, for a variety of reasons, to be private and known only to the superior and subordinate(s) directly involved. The criteria and techniques discussed previously still apply but the actual objective(s) will remain unpublished.

We have also been discussing objective-setting with the implied understanding that the process is highly participative and the final results are jointly determined through discussion and "negotiation" between superiors and subordinates. Most people will set higher objectives and standards for themselves and be more committed and innovative in achieving them if they are encouraged to participate fully in the process of deciding what those objectives should be. This is not always the case. This emphasis on participation does not translate to a rule. Each manager must determine the level of participation appropriate to the group and individuals involved and act accordingly.

Finally, here are some additional thoughts on organization objective setting:

1. Don't stress the obvious. Don't merely write down obvious things but set exceptional improvement and innovative objectives.

2. Every objective you accept means you have rejected other possible objectives. Because resources are scarce, you should have looked at many alternatives before choosing the best.

3. A mistake in objectives will produce a mistake in activity. Objective setting cannot be treated as a mere bureaucratic exercise, for activity will follow objectives at the same level of excellence. Bad objectives produce worthless results. Good objectives produce rewarding results.

4. Objectives are most useful when stated with indicators. The most lofty purpose and exciting objectives must be converted into some kind of indicator which can be used to measure performance. Counting the number of managers trained, for example, does not ensure quality training but it

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makes such quality possible; if nobody was trained, the quality would be zero.

5. Force a measurement, and if it does not work out, change it. Even an arbitrarily chosen objective will produce better results than no objective at all and even subjective measurements are better than no success criteria.

6. It is a good idea to pick an objective to command resources. The best objective is one that promises to add value to the resources that will be consumed in producing it. Setting objectives to command resources will often turn attention to that "value added." Objectives that show promise of being profitable will supplant objectives that do not promise such added value or that are unclear as to what the value might be.

Remember...setting objectives is a forward-looking process that is done by imperfect people in an imperfect world. The major emphasis should be on doing better. As Andrew Carnegie once said of his steel company, "All's perfect; we're getting better."

Individual Performance Objectives

This is where the real work gets done. Virtually everyone in the organization should have clear performance expectations in terms of results that support achievement of organizational objectives. If not...why are they a part of the organization?

Remember that such performance expectations should include professional development and are best determined jointly by the boss and subordinate.

All of the previous comments concerning "objectives" apply equally to organizations and individuals.

It is recommended that some (if not all) individual performance objectives be set in a team meeting. This precludes efforts at cross purposes, allows increased support and learning from team members, and fosters accountability.

Finally, here are some additional thoughts on individual objective setting:

1. There can be both verbal and written objectives. While most objective should be confirmed in writing for future evaluation efforts, verbal commitments acceptable to both parties can also be effective.

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2. Other things being equal, try participative objective setting first. Most managers and professionals expect to be invited to participate in objective setting that impacts their unit or individual performance objectives. If you have no reason to think subordinates will withhold effort or try to deceive the organization, then encourage them to participate. In those rare cases where you suspect some serious foot-dragging, don't let a strong desire for participative management deter you from imposing objectives. Breaking a general "rule" about encouraging participation can be done if there is good reason.

3. If objectives are conditional, state the conditions. For instance, a contracts manager might say, "If we get that helicopter contract, I would set an objective of half a million in added sales for us. If we don't, we will do half that or less." You can also state possible side effects you will try to prevent, but are "hedging" for good measure. This is called making our objectives realistic. For instance, "if we get the large contract we bid on, our overtime and inspection budgets will increase by 15% over plan."

4. Imagined side effects should not be allowed to stop objective setting. It is better to assume that the ordinary things will occur and not let one's imagination run wild anticipating obstacles that may or may not happen. You should expect ordinary conditions to continue unless you have some hard evidence to the contrary.

5. Any legitimate customer or user demand must become somebody's objective. The demand for some product or service by a customer, either inside the organization or outside of it, should be firmly fixed in somebody's objectives. The reverse of this is that every objective should relate to the production of something that somebody important wants, not just the person stating it.

6. Low confidence means low objectives; high confidence means high objectives. Subordinate units and individuals will generally reflect your level of expressed confidence in them when setting their objectives. Their confidence in themselves is a reflection on their perceived standing in "the bosses' eyes".

7. Let people fool you a little bit in the objectives statements. If the overall effect of the objectives that people set looks good, don't be so finicky that you pick them apart for minor details. If you are dealing with the timorous who like to hedge every bet, don't fight over pennies. Just urge them to succeed in the objectives and even exceed them. This does not mean you should allow totally unrealistic objectives, but don't pick at minor variations

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from that which your judgment tells you would be more precise. The fallacy of misplaced precision can stifle initiative.

(Note: Much of this material has been adapted from George Odiornes' book, MBO II.)

Operating Values

The second way values operate in an organization is in "how business is conducted." These values are also decisions about choices and answer the question "How are things done around here?" These values are usually stated as philosophical tenets and must be further defined behaviorally to be of practical use.

Examples would include a concrete construction company with an operating value of "Safety First" that also provides specific mandatory safety training for all employees, constant evaluation and incentives for safe performance; an auto retailer with an operating value of "Customer Satisfaction" and instructions to the service department to spend, if necessary, up to $400 beyond recoverable warranty expenses to insure new car customer satisfaction; a manufacturing company with an operating value of "Teamwork and Participation" that mandates the use of quality-circle type employee groups, regular training in these approaches for supervisory and non-supervisory employees, and regular evaluation against pre-set performance criteria for these practices appropriate for each organizational element and management level.

These "how" values are "the way we do business here." They may sound clear and we may expect them to be understood...but they rarely are unless discussed. The best way to clarify such values is to decide at the operating team level what behaviors are associated with the words.

Talk is cheap. Behavior is believable. To be believable we must know what our operating values are in terms of behavior...and then behave that way. This requires discussion leading to clear understanding of expectations and ongoing feedback.

Values for subordinate units may add areas of emphasis but must, at a minimum, support those of the superior organization element.

Results

This whole system is designed to produce results desired by the organization and its individual members. We are not clarifying purpose, strategy, goals, objectives, individual performance expectations and operating values just because "we have to manage some way." We are doing it because it is an effective way to maintain local

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autonomy and responsiveness while linking people synergistically to achieve the results desired.

We are managing ourselves for results. That's what counts. It also counts that this system of managing ourselves is particularly gratifying at the personal level.

Performance Feedback

Feedback and evaluation information is absolutely critical to the success or effectiveness of any system open to the influence of variables (either expected or unforseen).

Feedback is a term for the flow of information back to decision makers which indicates how the system is doing and what, if any, elements of the operation should be changed. We need to regularly exchange information on how our system for managing can be changed or improved.

Regularly scheduled (quarterly is recommended) performance reviews for teams is crucial to success. We must routinely sit down together to determine how well we are achieving our objectives and what, if any, changes must be effected, when, and by whom.

Similarly, people need regular feedback on their individual performance. Even more so than machines or systems, people have a strong and continuing desire to know exactly what is expected of them and how well they are doing. Informal quarterly reviews of performance relative to objectives is extremely helpful in maintaining the clarity and understanding necessary to improving performance or maintaining high levels of performance.

These feedback processes do not need to be formal, paper-laden affairs. Again, the emphasis is on people...not paper. Paper is only maintained to the extent it is necessary as a record of agreements or useful data.

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