



PERFORMANCE MEASURES IN FOCUS

Out of the colliding worlds of scorecards and appraisals, a better system to rate employee performance is possible.

By Graham Kenny

Performance appraisals get awfully bad press. “The traditional performance review rarely does anything to improve staff motivation, sense of purpose or output,” rails Tony Wilson, performance coach, in *Management Today* (Nov/Dec, 2010). “Why are annual performance appraisals so time-consuming – and so routinely useless?” queries Leon Gettler, senior business journalist, in *HR Monthly* (July, 2008). Samuel Culbert writes in “Get Rid of the Performance

Review” (*Sloan Management Review*, October, 2008) that “it destroys morale, kills teamwork and hurts the bottom line. And that’s just for starters.” The result is that the completion rates of performance appraisals can be quite poor – as low as five per cent in some business units I’ve seen. Even when completed they’re usually undertaken begrudgingly.

At the same time as managers struggle to comply with the human resources department’s requirement to complete their performance appraisals and those of their subordinates, they battle to make sense of the scorecard system championed by the CEO. What results is a type of pincer movement. Business-unit managers sandwiched between the different requirements of scorecards and performance appraisals ask: Do we need both? Should the systems be rationalised? Let’s take a look.

Appraising appraisals

Formal performance appraisals typically involve employees evaluating themselves and being evaluated independently by

their boss. These two forms and written assessments are then compared in a discussion involving both parties. As a result, a third appraisal is produced, the contents of which are agreed to by both boss and subordinate. This final evaluation may be sent to HR for filing and action, if necessary. While there are numerous variations on the procedure I’ve outlined, performance appraisals remain a boss-subordinate-focused process.

Whereas these tools, in one form or another, have been around for some time, it was after the Second World War that formal performance appraisals really became established. In the 1950s they took a firm hold. By 1954, the National Industrial Conference Board in the US reported that about half the 400 employers surveyed were using merit-rating plans. Over the past two decades, several surveys indicate that between 74 and 89 per cent of business organisations in the United States use a formal performance evaluation tool. A similar take-up can be seen in other

Western countries such as Britain, Australia and New Zealand. Many and varied are the criticisms of performance appraisals, which may also be labelled “performance evaluations” or “360 degree feedback” (which introduces co-workers’ assessments in addition to that of the boss). Academic reviewers list 10 misplaced assumptions associated with performance appraisals, one being that the appraisal process is trying to do too much: coaching, feedback, development and assessment.

The wrong focus

My criticism of performance appraisals is different. While I accept the points made by the reviewers, my observation is that performance appraisals measure the wrong things. They measure activity, not outcomes. This is a fundamental point. It is also the main reason why performance appraisals are almost universally disliked.

In my public seminars, I put the following situation to delegates: “Today I could measure the number of PowerPoint screens I show you, the number of times I use the whiteboard, how many flipchart sheets I use, the number of handouts I give you and, using a pedometer, the number of steps I take. Are these measures of my performance?”

“No,” responds my audience, agreeing that we’d be measuring activity only. They measure my performance by whether they benefit from attending the seminar.

This example distils the dilemma that managers and their fellow employees face when it comes to measuring performance: distinguishing between activity and outcomes. Activities, as managers know and my example illustrates, are easy to measure. Outcomes are more difficult. Yet if managers aren’t measuring outcomes, they’re not measuring performance.

So where do performance appraisals fit into this picture? The content of performance appraisals is usually formulated with reference to an individual’s job description – what the person is supposed to do. Take a look at the job description of a development manager to the right. Note the activities.

The problem, as this particular manager saw it, was that his key performance indicators (KPIs) came from his list of tasks and relied on the subjective assessment of his boss. He

felt that there was more to his job than these specific activities and the boss’s assessment of how well he did them. As a result, he remained dissatisfied with the whole process. His experience is typical.

The scorecard approach

A scorecard is a table of KPIs against which an entity, such as an organisation or business unit, is rated. The term “scorecard” in relation to performance measurement has its modern origins in the US company, Analog Devices. It created the first “balanced scorecard” in 1987. (For details, go to www.schneiderman.com.) Its Corporate Scorecard contained measures in four categories: finance, customers, manufacturing processes and new product development. Some years later, this specific and *ad hoc* solution to Analog Devices’ measurement problems became generalised by Robert Kaplan and David Norton as the Balanced Scorecard. It was announced via a *Harvard Business Review* article in 1992.

What scorecards measure

Analog Devices used their scorecard to measure the performance of the organisation. On the other hand, Kaplan and Norton stated that their scorecard – with its four measurement categories of financial, customer, internal business process, and innovation and learning – was best suited to measuring business-unit performance. My journey down the scorecard path took place in Australia, beginning in 1990.

Oblivious to the developments within Analog Devices and the Balanced Scorecard, my company’s Focused Scorecard grew out of our strategic planning consulting. It is based on an organisation’s or business unit’s key stakeholders, not on the four pre-set categories of Analog Devices’ Corporate Scorecard or Kaplan and Norton’s Balanced Scorecard. Our KPIs focus on key stakeholders and the strategic factors relevant to each. We all know that CEO performance is judged according to organisation performance. If Westpac or Qantas does well, the board gives the CEO a tick. If not, the CEO receives a caution and, unless performance improves, is likely to get the sack. We’re all okay with this practice. Following our approach, a board would employ a scorecard that reviews

organisation and CEO performance in categories governed by the organisation’s key stakeholders – customers, suppliers, employees and shareholders. The exact nature of these categories of performance measures varies depending on the particular organisation and its industry. The essential point is that performance is assessed on what the organisation gave to and received from each key stakeholder.

With this approach, a manager’s performance equals the performance of his or her department – which includes how well it/the manager deals with its employees. If we develop the appropriate scorecard for the department, can’t we ditch the manager’s individual performance appraisal?

Unscrambling the mess

Take a fresh look. Performance appraisals in their current form have been with us for at least six decades and scorecards for two. Organisations have had plenty of time to experiment with both. It’s easy to continue to pile one performance measurement system on top of another – easy, but not effective. This simply leads to confusion among staff and a waste of resources. The time has come, I believe, for boards, CEOs,

Job Description – Development Manager

- Identify and evaluate opportunities for profitable land development
- Develop and articulate the vision for each development project
- Develop the master plan for each project
- Obtain the consent of Councils and other regulatory bodies to proposed projects
- Identify and engage individual consultants and teams of consultants with the competencies needed to achieve the project objectives
- Develop marketing strategies
- Negotiate terms and conditions for consultancy agreements and fees
- Draft detailed consultant briefs for projects

It's important to measure outcomes for both sides in the relationship, and an effectively designed scorecard leads you along this path.

HR and finance managers to take a fresh look at both. It may save time and money, and boost performance.

As a first step, it's necessary to recognise the weaknesses in your performance appraisal process. As we have seen, with very few exceptions, performance appraisals focus on an individual's activity rather than on outcomes. You have a number of choices:

1. Discontinue your appraisal process entirely.
2. Replace it with a scorecard system.

3. Supplement your appraisal process with a scorecard system, but beware of overload – and watch the expense.

The second step is to make focused scorecards the basis of measurement. They measure how well an entity – organisation, business unit, department – does with its key stakeholders: customers, clients, suppliers, employees, owners. It's a two-way street. The stakeholders want something from the entity – customer service and quality products – and the entity wants something from the stakeholders – money. It's important to measure outcomes for both sides in the relationship, and an effectively designed scorecard leads you along this path.

Receptionists have scorecards too

You may be thinking that's all very fine for CEOs and department managers, but what about receptionists and shop floor employees? They don't manage business

units. That's true and it's at these points where the entity and the individual coincide. The individual is the entity here. So in measuring the performance of the receptionist, focus needs to be on her key stakeholders – her boss, customers, fellow employees. Properly constructed, her scorecard will do just that.

With a fresh approach, some of the pervading hostility to performance measurement may be dissipated. Instead of being viewed by many as a useless time-waster, assessing performance may come to be seen for what it is – truly fundamental and, ultimately, highly beneficial. ▀



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