



# Shape The Future: Performance Contracting

Move your organization  
from the drag of performance appraisal  
to the joy of performance contracting ...

**“Shape The Future,  
don’t appraise the past.”™**

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**This short book contains a number of articles on personal performance contracting. Board Members, executives, managers, direct reports, in both for-profit and not-for-profit organizations, will see how performance contracting, rather than performance appraisal, leads to increased employee engagement and productivity.**

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**WCI provides the following Performance Contracting Services.**

1. **Honest broker facilitation** of C-Level Performance Contracts
  - for Board Members responsible for CEOs,
  - and for CEOs' and CEOs' Direct Reports.
2. **Training in performance contracting processes and skills** for individuals at all levels in your organization.
3. **Consulting / project management for organizations** that are moving from a backward-looking performance appraisal culture to a forward-looking, metrics based, performance contracting culture.
4. **Metrics design** for use in performance contracting dialogues and negotiation.
5. **Presentations and speaking engagements on performance contracting** for managers and professionals involved in performance management.

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We are committed to working out  
win-win arrangements.

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## Introduction

The articles in this short book, along with the Internet based voice over presentations and other Internet based resources that are referred to in these pages, can help you become a performance contracting wizard.

**Move your direct reports  
from the drag of performance appraisal  
to the joy of performance contracting ...**

**Engage your staff,  
no matter which generation they belong to:**

**Baby Boomer,  
Generation X,  
Generation Y,  
Or generations yet to come.**

Start performance contracting today. These pages will show you how.

These articles are independent of one another. Some of them are “how to” guides. Others show the benefits of moving to performance contracting, based on work place psychology or experience in the work place.

Pick and choose the order in which you use them. Treat them as a “surfable” personal development resource that will help you be a more effective manager of others, increasing their engagement in their work and their productivity.

You can also read this short book as a guide to why your organization needs to move from a performance appraising culture to a performance contracting one.

Versions of some of these articles first appeared in the blog “[Reflections on Business, People and Life](#)”

Click on the link above or copy and paste the following URL into your Internet Browser <http://roelfwoldring.wordpress.com/> .



## 1. Why you need to be a performance contracting manager?



### **Performance Contracting is the key to Employee Engagement and Organizational Excellence.**

The HR and business press is full of articles about how Generation X, Generation Y and the next Generation now entering the work force are different from the Baby Boomers who are about to retire. But in one way they are not so different. Employee satisfaction surveys still tell us, like they have for the past twenty years, that employees do not believe that performance appraisal helps them improve their performance.

So why are we as managers not listening? There are a variety of reasons. Some have to do with organizational inertia. Some have to do with the fact that managers appreciate the re-enforcement of their power over direct reports inherent in performance appraisal. But most importantly, we, as managers, really haven't had the business support systems that we need to move from appraising past performance to contracting for future performance delivery.

Contracting for performance with our direct reports requires that we commit to the regular independent delivery of feedback to them. That feedback has to be based on agreed upon performance metrics relevant to each of our direct reports. In the majority of cases, these metrics will come from automated business applications that we now use to run our business. The cost effective delivery of such information is now possible with the current information technology.

The business tools that we need are finally there. Now all we need to do is change our attitudes. We need to stop appraising people. We need to stop telling them what they did and did not do in the past. We need to stop rating them on an evaluation scale that invariably involves subjective judgment.

We need to move to contracting about their future performance with them. We need to help them get crystal clear on what it is they are expected to deliver. We tell them exactly how we will evaluate whether or not they deliver the results they contract to deliver. Finally, we need to make sure that they have access to the data on these metrics independently of us, directly from the automated business applications that we both use to do our work.

For the organizations that do this, magic happens. Most people want to do well. Most people want to contribute to the organization for which they work. Most people, when they get regular independent feedback on how they're doing, will take steps to correct their performance when they go off track. The best of them will strive to exceed their contracted delivery levels.

That's the essence of performance contracting for excellence. It is also the basis of effective boss – direct report coaching. Together, these two are the key to improving people engagement in the workplace. That engagement is now, and will be ever more crucial, in the current and coming competition for skills and talent.

Let us as managers demonstrate to the people who work for us that we can do what we expect them to do: **listen to feedback**. Let us take what we've been hearing on employee satisfaction survey after employee satisfaction survey seriously. Let's start shaping the future, and stop appraising the past. Commit yourself to performance contracting with your direct reports today.

- 
1. The following link will take you to an Internet Browser voice over presentation that expands on this article.

[Why Performance Contracting?](#)

Either click on the link, or copy and paste the following URL into your Internet Brower.

<http://www.wcilt.com/pdfquark/PCWhy/clevelpcwhyv2c/player.html> )

2. The following link will take you to a PDF of a work book for managers and staff who want to use Performance Contracting as the key to delivering results and improving personal professional development.

<http://www.21cstaffing.com/21cstaffingpdf/21CVSIDelivering%20Resultsv22.pdf>



## 2. Engage your staff: 7 steps to becoming a performance contracting wizard



Are you, like thousands of managers, dreading the performance appraisals that you need to do at the end of every year? Just about every survey of working professionals that asks questions about performance appraisal document the discontent that people feel with the performance appraisal process.

So how do you make this better? How do you avoid the year end performance appraisal blues? Simple, really. Make a resolution to move from performance appraisal to performance contracting. Here's how to do it in seven steps.

1. Start by making a list of the people for work for you. For each one, brainstorm the things that they do for you. Use the outline facility in Word or an outliner software tool or paper and pencil, whatever works for you.
2. Once you have this initial list, re-organize it until you have between 3 and 7 main responsibilities for each person. It's hard to work with more. If your list for an individuals is longer, group things together until you have the 3 to 7 you need. Note the similarities between people. That will help you in the next step.
3. Take an individual on your list. Imagine that this person is going to do a great job on each of these 3 to 7 responsibilities in the coming year.

## Move to Performance Contracting ...

Visualize this. Run an internal film or set of pictures if that works for you. Ask yourself the following questions about each of the 3 to 7 responsibilities.

“Jack (or whatever the person’s name is) is doing a great job at xxxx (fill in one of the responsibilities in your list). So what will I be:

- Seeing – what’s showing me that ... (the person’s name) ... is doing a great at this?
  - Hearing – who’s telling me that that .... (the person’s name) ... is doing a great job at this? What are they telling me?”
4. Translate what you are imagining - seeing and hearing - into a single statement – a measure or metric that lets you and others know that this person is doing a great job on this responsibility. Ask yourself the following question as you do this.

“Will I be hearing and seeing this every day, every week, every quarter, ...?”

That adds an important time dimension. The shorter, the better. Keep time dimensions under a quarter; monthly or weekly metrics are far more useful.

Today, many of these metrics are available from the automated business applications that we use to do work. Make sure that the person has access to this information, so that they will be getting constant feedback on how she or he is doing directly from these computer applications.

5. Organize your results into a single page for each person. List the 5 to 7 responsibilities. Put the appropriate measure or metric below each one. Title the page “Draft performance contract for ... the person’s name.” Make two copies.
6. Arrange a meeting with each person. Plan for about an hour. Give each person a copy of the draft performance contract before the meeting, so that they have time to read it. Meet with each person separately. Work through the draft performance contract together. Make sure the individual is clear about each item and each measure. Listen to any issues the individual has about any item. If these concerns help clarify this person’s performance objectives and make the measures even more concrete and specific, modify the page to take this into account.
7. When you have done this with each person, you have negotiated a forward looking performance contract for each person.





Turn each modified draft into a final version. Make two copies of it. Sign both. Get each individual to sign both copies of their personal performance contract. Take one for yourself. Give the person the other copy.

Don't underestimate the power of the ritual involved in signing these personal performance contracts. Ritual is an important way in which human beings signal commitment. Make sure that the signing process has the appropriate weight and ceremony.

Only 1 more thing to do and you are on your way to a hassle free performance review at year end.

Schedule a meeting once a month with each person who works for you. Bring your copies of that person's personal performance contract. As you review it together, ask yourselves:

"Am I seeing and hearing what we thought I would be seeing and hearing on each metric? Are the measures being met?"

"If yes, great -.let's keep going".

"If no, what can we do to get back on track?"

There, you have stopped performance appraising and become a performance contractor. Instead of looking back and evaluating, you are looking ahead and coaching.

You will find that your folks appreciate knowing what they have to and how it will be measured. They will probably surprise you by exceeding some of their measures. They will be engaged in their jobs. They will be evaluating their own performance, and seeking to improve it.

Occasionally, this will not happen. You may have a person who consistently does not achieve his or her contracted performance metrics. You now have a factual basis to engage that person in problem solving dialogue about this. When this happens, you are acting as an effective, focused coach. If the individual does not respond positively, you also have a factual basis for moving to job re-assignment, job simplification or even termination.

**"Shape The Future, don't appraise the past."™**

### 3. Ho, Ho, Ho – It's the Season for Performance Appraisals



I asked Susan, my horse sharing friend, what was going on with her as we drove over the stable to work Hamish (He is a Canadian gelded horse who weight about 1500 pounds, and is very smart as horses go.)

She groaned, and said “It is performance appraisal time. I just don’t like doing them. They always kinda spoil the year end at work for me.”

Susan is not aware that I write and consult on performance contracting. Her comments reflected unhappiness with the performance appraisal process that I have heard from countless managers and direct reports.

“Just what are you doing?”, I asked, knowing that there was a good chance I would hear things that reflected the reality experienced by millions of subordinates and mangers. She replied.

“Well, I'm working on my own appraisal. At the same, I doing the ones I need to do for the folks who work for me. It always feels like a game to me. I haven't had a single conversation this year with my boss about what I'm supposed to do and how she is going to measure my performance. And now she asks me to write up my own performance appraisal and rate myself. I know it's tied to her concerns about how year end bonuses will be allocated. She's done this to me every year that I have worked for her. It's all a big set up game.”

Susan was obviously discouraged. You could tell from her voice tone that she really didn't enjoy talking about this. I decided to leave it alone when she continued on.

“They tell us that the performance appraisal at our company is objective and based on performance dialogue that we should be having all year. I try to do that with my subordinates. Because I hate not being clear on how I'm going to be measured myself, I try to be as clear about this with them as I can. Also, I know that they know that their annual bonuses are tied to their performance appraisal ratings. That makes all of us anxious. Money is money - we all can use more, especially at Christmas.”



Seeing that she was willing to go on, I asked, “Do your subordinates feel differently about performance appraisal based on what you do?” She responded,

“It’s the power tripping and game playing that really gets to me. We all know it’s about money. The performance appraisal rating we each get directly determines the size of our annual bonus.”

She looked out the car window and went on.

“I get along reasonably well with my boss during the year, but it always seems to fall apart at year end. She asks me to complete my performance appraisal form and rate myself. I already know that she’s already decided what rating she is going to give me. I also know it has more to do with how she wants to spread out the bonus money she has over the folks she has working for her. She clearly enjoys the power position that this puts her in.”

She sighed, looked at me and continued.

“My final rating is going to be based on a bunch of things, none of which have anything to do with my real performance. She will rate me based on who she wants to reward and how she feels about me compared to everyone else. So this puts me in a real bind. I struggle with it for days before I finally stop thinking about what I did during the year and just try to guess at what I think she wants me to rate me.”

Making sure my non-verbal cues were sympathetic, I asked “what about the performance appraisals you have to do for the people who work for you?”

“That’s just it”, she responded, sighing again and looking out the car window, before she turned back to me.

“I know my boss’s real concern is about how she’s going to distribute the pool of bonus dollars that have been allocated to her. Part of that relates to who gets what among my subordinates. She’s not going to engage in real dialogue with me about what they did during the year. Sure, she will go through the motions, but she finalizes my ratings of them based on how she wants to spread out the money. I sense that she’s doing calculations in her head about this the whole time we are reviewing my ratings of my direct reports. And she always does

this before she tells me what my own rating is going to be. If I disagree with her about the rating for one of my folks, I know she will pull down my own rating. So I don't. That makes me feel like a traitor, especially to the folks who have really performed this year, if she decides to rate them less than they deserve."

"What does that do to your relationships with the folks who work for you?" I asked. Susan replied with real bitterness in her voice.

"Poisons them, quite frankly, at least until everybody knows what they're bonuses they are going to get. They know perfectly well how my boss handles this. It is an open secret no one talks about. They often play up to her more than they pay attention to me. The final ratings that my people get have more to do with how effectively they manage my boss's feelings about them than the work they do for me."

"Sound frustrating", I replied in an encourage tone of voice. Susan's voice tone became hard as she responded. I could sense that she was being careful in her choice of words.

"I suspect the fact that some of my folks, who are good-looking members of the opposite gender, really know how to subtly, without being obvious or foolish, influence her feelings about them. Again, it is almost an open family secret. Everyone knows it. No body ever talks about it. But everyone knows. And it is all o.k., because nobody ever takes it over the line whether it is obvious abusive or inappropriate. I hate performance appraisal time."

Susan was clearly unhappy about all of this. Since I didn't want spoil our working time together with Hamish, so I changed the topic to how we will work with him today. Susan responded with relief.

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Susan's feelings about performance appraisal are not unusual. Survey after survey, done both by outside HR experts and by internal HR departments, have shown that most managers and staff dislike and do not trust their company's performance appraisal process. They deal with it, particularly in light of the fact that so many companies tie annual or other bonuses to performance appraisal ratings. But very few survey respondents believe that performance appraisal has much to do with people's actual performance on the jobs. They also make it clear that they find performance appraisal a de-motivating process.



There are several things that companies can do to avoid this annual feeling of malaise.

1. If your organization insists on using a performance appraisal process, try to schedule them so they are not tied to the calendar year end. Scheduling performance appraisals on the anniversary of employment dates for instance avoids this concentration of unhappiness at year end.
2. Make sure that you use a performance contracting process that aligns with your organizations's performance appraisal process. Since performance contracting looks ahead, you will clarify what you expect your direct reports to do during the year. You will have concrete results on specific measures to defend your year end performance appraisal rating of your subordinates. That will decrease the viability of the kind of "game playing" that Susan experienced with her boss.

Review "[Performance Appraisal is Dead, Long Live Performance Contracting](#)" to learn more about the difference between the two.

This is a voice over browser based presentation available at: <http://www.21cstaffing.com/21cstaffingpdf/performancecontractingv1/player.html>. Copy this URL and paste it into your Internet Browser if the above link does not work for you.

Your organization can also do some things that reduce the negative impact of year end performance appraisal on morale and motivation. A crucial one relates to the way in which the organization designs its bonus compensation scheme. Organizations wanting to avoid the year end performance /appraisal frenzy and blues structure their bonus scheme so that it has two or more components.

One organization has the following bonus compensation scheme. Although each portion of the bonus is smaller than the one time annual bonus paid by their competitors, their employee satisfaction surveys indicate that their employees are much happier with this structure.

- A company performance bonus paid out to everyone in early February. The amount is related to their annual salary. It is based on the total company's performance on corporate financial and operational measures in the past calendar (= fiscal) year. These targets are communicated to everyone as part of the annual planning process early in the relevant year.
- A team bonus which is paid out all of the members of each team in December, based on each team's achievement of a set of predetermined

team targets. Every member of the team receives a portion of this bonus amount based on the ratio of their annual salary to the total annual salary for the team. These performance targets are also developed and communicated as part of the annual planning process early in the year.

- An individual bonus directly related to the person's performance appraisal ranking is paid out (or not) based on the person's personal performance appraisal rating. Performance appraisals are scheduled based on the anniversary of each individual's original employment date. This bonus amount is paid in the month following appraisal completion.

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As we arrived at the stable, Susan sighed and said,

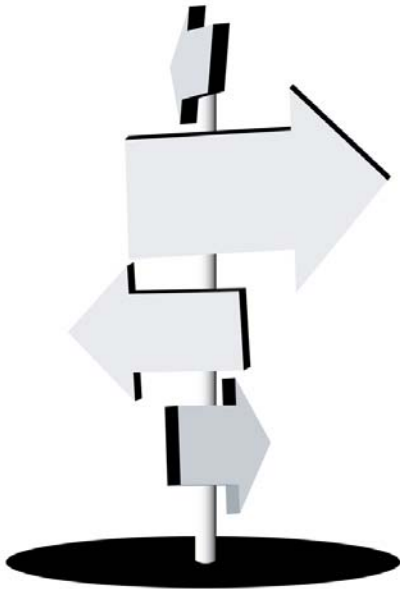
“You know, I would just like to know what I am supposed to do, and how I am going to be measured on it. It would get rid of the games.”

Susan and millions of others agree. Yet somehow, organizations are stuck in a performance appraisal rut. As a result, “Ho, Ho, Ho” means anything but employee satisfaction and engagement during each year end's performance appraisal season.

**"Shape The Future, don't appraise the past."™**



#### 4. Why you need an independent honest broker to facilitate C-Level performance contracting?



As a CEO or Board member, you depend on the advice of lawyers when you enter into complex contracts with your external business partners. You need equivalent independent advice when you enter into personal performance contracts with your C-Level executives. They are the individuals whose talent and execution leads to your business success.

Depending on intuition and personal feelings does not lead to clear executive level performance contracts. We evolved as tribal beings, not as organization participants. Our approach to leadership is based on our evolved tribal instincts and capabilities, not on a rational approach to defining leadership expectations.

We have learned to move beyond our instinctive approach when we shape legal contracts between organizations. We can do the same when it comes to formulating performance contracts with corporate leaders.

Often the thing that gets in the way of developing C-level performance contracts is a lack of time. C-level executives are extremely busy people. Time is their single most scarce resource.

An external “honest broker” facilitator who takes on the task of developing C-Level performance contracts eases much of this dilemma. The cost involved is minimal compared to the benefits for the organization. The C-level leaders involved are energized and focused by the resulting performance clarity. They are free to put all of their energy into delivering the organization’s desired results.

The executive’s actual performance contract is the basis for a comprehensive, clear “cascade down” in the executive’s reporting group. C-level executives guide, direct and delegate more than they personally do. Sharing relevant portions of an executive’s personal performance contract with appropriate direct reports clarifies their own persona performance expectations in a powerful way. They are the individuals who engage with staff to achieve these performance goals.

## Move to Performance Contracting ...

An experienced executive performance contracting facilitator guides the development and the negotiation of C-Level performance contracts in ways that are beneficial to the executive and the executive's "boss". Acting as the honest broker, the facilitator ensures that both sides have a clear idea of what is expected and how it will be measured. The facilitator contributes by selecting, designing or refining performance metrics that they relate specifically to each performance objective in the executive's contract. The facilitator also takes on the writing task, saving both the executive and the executive's boss considerable time.

Being an honest broker requires more than an ability to communicate clearly and to write well. The facilitator has to have been there. She or she must have experience as a CEO and C-Level executive to "know" what it takes to be a C-Level leader.

C-level performance contracting honest is the last and most necessary step in effective strategic planning. During the personal performance contracting process, an experienced honest broker facilitator takes care to ensure that the "strat plan" is translated into aligned personal action for each of the C-Level executives.

The strategic plan may be formal – written out, or informal - the result of a dialogue that occurs among the inner circle of an organization's senior leaders. However, unless it becomes concrete in the personal performance contracts of the C-level leaders, the strategic plan cannot cascade down through the organization in a way that aligns the efforts of all the staff. Staff may understand it in very different, non-aligned ways when they think about what it means for their own jobs.

This aligning of performance expectations is the greatest value delivered by an effective C-Level performance contracting facilitator. The honest broker's only stake is the performance contracting process is producing clarity. As a result, she or he can see where there are gaps and disconnects among the C-Level executive's personal performance goals and close them.

Most organizations assume that executives are capable of translating strategic plans into personal action. They are right. Executives will. But the organization takes a risk. Each executive operates out of a "personal, often implicit" version of the strategy. Alignment among the C-Level executives may occur, but often it does not.

Forward-looking, aligned C-Level personal performance contracts create great clarity of purpose in an organization. This energizes not only the C-Level executives, but the whole organization. The result is a forward-looking performance contracting organization that values personal delivery, self evaluation, and coordinated action.





The voice over Internet browser presentation below provides more detail on the how this is done.

[C-Level Performance Contracting: Getting It Done \(A How To Guide\)](http://www.wcild.com/pdfquark/clevelpchowto/clevelpchowto/player.html)

This is a voice over Browser based presentation available at:

<http://www.wcild.com/pdfquark/clevelpchowto/clevelpchowto/player.html>

Copy this URL and paste it into your Internet Browser if the above link does not work for you.



The following page contains a template that was developed specifically to guide the development C-Level Performance Contracts for CEO's.

Not every CEO will have performance objectives in every cell. By using a framework such as this as a checklist, the honest broker facilitator will cover every aspect of a CEO's role. Systematic use of this template increases the effectiveness and the efficiency of the C-Level Performance Contract preparation process.

The template is followed by the slides from a short presentation on C-Level Performance Contracting.



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## C-Level Performance Contracts: Task and Measures Development Grid

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### Tasks and Measures Development Grid

Not every C-Level Executive will have performance requirements in all of these cells.  
By noting which cells need deeper exploration and performance requirement clarification, we create an effective guide to the efficient development of a specific Executive Performance Contract.

	Stakeholders and Audiences								
	Board, Including Chair	Direct Reports	“Whole Organization”	Customers	Suppliers	Bankers & Investors	Regulators	...	...
<b>Symbol - Communicator</b>  <b>EXECUTIVE ROLES:</b> <b>FIGUREHEAD:</b> Handles ceremonial and symbolic duties as head of the organization <b>SPOKESPERSON:</b> Communicates to the outside world on performance, possibilities and policies <b>DISSEMINATOR:</b> Transmits factual and value based information to relevant players <b>LEADER:</b> Fosters an effective work environment. Selects, motivates and develops direct reports. Sponsors actions to meet short term / long run talent needs of organization. <b>RESOURCE ALLOCATOR:</b> Controls and authorizes the use of organizational resources (physical and intellectual property assets, talent and \$) <b>DISTURBANCE HANDLER:</b> Identifies, addresses and resolves / rectifies unexpected events and organizational breakdowns <b>MONITOR:</b> Gathers and organizes internal and external information relevant to the organization <b>LIASION:</b> Develops and maintains network of external contacts to gather information <b>PLANNER:</b> Initiates and shapes the development of business plans that achieve organizational goals in short term (1 to 2 years), and long run (2-20 years) <b>ENTREPRENEUR:</b> Initiates product and process change that increases effectiveness / efficiency in the organization <b>NEGOTIATOR:</b> Strategizes, leads and participates in negotiation activities with other organizations and individuals									
<b>Leader</b>									
<b>Information Manager</b>									
<b>Strategist</b>									

Executive: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_  
 Performance Contracting Facilitator: \_\_\_\_\_


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 With acknowledgement to the work of Henry Mintzberg "The Nature of Managerial Work" 1973



## C-Level Performance Contracts: Why Bother (presentation slides)

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**C-Level Performance Contracting: Why Bother**

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**Performance Target:**  
Develop and negotiate a performance contract for a specified period for a specific Executive in a specific organization.

**Metric:**  
A Performance Contract document signed by both the Executive and the Executive's superior/clients.

**WCI**

**"We have a perfectly good performance appraisal system so why bother to change?"**

<b>Performance Contracting</b>	<b>Performance Appraisal</b>
Before the fact → Looking Ahead	After the fact ← Looking Back
Dialogue based: aligns CEO / Board perception of what has to be done	Perception Based: Contrasts "I think / saw / believe" with "you think / saw / believe"
Leads to Self Correcting Performance: "seeing where I am going or not going allows me to fix what is going wrong"	Leads to Self Justification & Defence: "It was beyond my control. I was not clear that you expected this. I thought the priorities were different."





**"Shape the Future, don't appraise the past"**

2

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**Understanding the Situation**  
(generally 1 day)

- Meet with the Assignment Sponsor
  - Review Business Terms / Sign Confidentiality Agreement
  - Agree on Introduction to the "Executive"
- Review "background" documents
  - Annual Reports / Financial Statements / Press Releases / High Level Budget / Strategic Plans / Relevant Business Overviews
- Outline "most likely performance" areas
  - 1<sup>st</sup> insights into organization
  - Based on familiarization with background documents



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3

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**Collecting "Superior" Expectations**  
(generally 1/2 day)



- One on One Meeting
  - Start with Task and Measures Development Grid
  - 1 hour to 90 minutes
  - In "your" office
- Explore each "relevant" cell of grid
  - What performance do you expect
  - Cast yourself into the future
    - Imagine that this "performance item" has been achieved
    - What will you be
      - Hearing
      - Seeing
      - Doing
- Outline "Superior's Expectations"



**Task and Measurement Development Grid**

**"Shape the Future, don't appraise the past"**

4

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**Collecting Executive Intentions**  
(generally 2 x 1/2 day)

- 2 One on One meetings
  - Executive's Office
- First to explain / start
  - Start to collect executive perceptions
  - Use Task and Measures Development Grid to shape exchange
  - Begin Executive's Version of Draft Performance Contract
- Second to explore performance Intentions in depth
  - What do you expect to be doing
    - Cast yourself into the future
      - Imagine that this "performance item" has been achieved
      - What will you be
        - Hearing
        - Seeing
        - Doing

- Outline "Executive's Intentions"
- Start to compare the Two: Superior's Expectations to Executive's Intentions
- Agree
- Disagree
- On One but not Both


**"Shape the Future, don't appraise the past"**

5

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**Aligning and Drafting the Performance Contract**  
(generally 1 day)

- Translate into a specific performance contract for this Executive
  - 5 to 7 Performance Areas
    - Specific performance targets in each area
    - Zero - Outcome
  - Each has a Metric / Measure
    - Objective
      - Output / Input (2 factor measures)
      - Trend Over Time (rather than point measures)
      - Source (i.e. business applications ...)
    - Subjective
      - Gathered how / from who / by whom
      - ? Dealing with "Outliers"
- Document Alignment between Two
  - On Superior's Expectations ?
  - On Executive's Intentions ?





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## Move to Performance Contracting ...

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### Clarifying the Draft through Dialogue

(generally less than 1/2 day)



- Three way meeting
  - Executive's office
  - Executive and Superior have received copy of draft Performance Contract before hand
  - Review item by item
- Clarify any required performance items or measures / metrics
- Resolve / mediate any areas of disagreement / non-alignment
  - Honest broker role



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### Finalizing the Performance Contracts

(generally 1 day)

- Prepare the final Performance Contract
  - 5 to 7 Performance Areas
    - Specific Performance items
      - Metric for each
        - » Time Period
        - » Trends if relevant
        - » Source of Metric
- Formatted for Signature
  - Send to Superior / Executive for any final comments
  - Finalize




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### Signing: The Importance of Ritual




- Moving from talk and words on paper to Personal Commitment
  - Signing ritual symbolizes personal commitment
  - "Signals" contract in force from now on
- Allows both sides to look towards future with
  - Shared expectations
  - Mutual understanding
  - Aligned perceptions
- Best
  - Three Way Meeting In Executive's Office



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### Follow Up

- Optional
- Process
  - Performance Facilitator gets copies of metrics
  - Arranges Three Way Meeting
  - Facilitates dialogue between Superior and Executive by "asking right questions"
  - Focus on
    - Trend and Issue Identification
    - Mutual Problem Solving
    - Key is resolution of differences in perception
- Can result in updates to Performance Contract
- When
  - Any time
  - 3, 6, 9, and 12 months


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### Why

- Focus on the future, not the past
- Free up Executive's energy for performance
- Eliminate "evaluate my past" anxiety
- Allow self-evaluation "in the moment"
- Create "self correcting" performance when difficulties encountered
- Setup "early warning" signals when expected circumstances change for "out of control" reasons

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### Contact me at ...

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## 5. How to “manage progress”, nurture “appreciation” and engage your employees in their work?



Harvey Schachter’s annual column on the best business books of the year in Toronto’s Globe and Mail newspaper is one of the better reads on what’s what in business publishing. He has just listed [his top ten business books of 2011](#). His first pick is “[The Progress Principle: Using Small Wins To Ignite Joy, Engagement and Creativity at Work](#)”.

As I read it, I am reminded of the fact that employees have been telling us for decades what managers need to do to inspire excellence in them at work. The question that I always ask myself when I read books like this is “Are we as managers prepared to listen? Or do we let our power position as managers convince us that we simply know better than our employees what they need in order to excel?”

But maybe this is the wrong question? Maybe we are listening as managers. Our problem might be that responding effectively to what we hear from employees might be “harder” than simply saying the things and behaving in the ways recommended in “The Progress Principle”. It may not be as easy to “manage” progress and “nature” appreciation as books like this make out.

Achieving result in an organization requires that we all share a “systematic” way of managing performance and results delivery as well appreciating and encouraging one another. Managers need to be able to ensure that their direct reports get performance feedback that measures progress, including negative feedback. At the same time, managers need to “encourage and appreciate” the individuals who work for them. One need cannot override or replace the other. As Jim Collins says in “[Good to Great](#)”, it is a matter of “AND not OR.”

Performance contracting allows this “AND”. Performance contracting takes into account some complex psychological realities about the way that people behave at work.

1. Every one has an internal mental model of their job. It guides us as we do the day-to-day things we do at work.

Our internal model of our job operates concurrently at the conscious, pre-conscious, and instinctive levels. Emotional intelligence has made us all

aware that we don't just function at the conscious level at work. Our mental abilities span a complex of ability systems that include many pre-conscious and instinctive components. Some of these ability systems have evolved to process the complex interpersonal messaging that allows us to collaborate and work with others. Much of this messaging is non-verbal.

When we become part of a work group, we naturally build up a "mental model" of our jobs that guides us in the work that we do each day. Most of the time, we are not consciously aware of the fact that we are doing this. We simply do it. This model allows us to fit our personal work place activities into the "[interlocked patterns of repetitive work](#)" that get things done in an organization.

2. Individuals build up internal models of their job through interaction with all of the people with whom they work, not just the people to whom they report.

Even the most solitary individual contributor at work does not work in a social vacuum. By definition, working in an organization means working with others at all levels to accomplish shared objectives.

3. Performance contracting brings the "what am I supposed to achieve" – the goal components of our internal models of work - into conscious consideration.

As manager and direct report talk together during performance contract, the goal components of the direct reports internal model of work become explicit. They are shaped in the dialogue the direct report has with her or his boss.

Without such a dialogue, direct reports develop the goal components of their internal model of work in response to the behaviour patterns they engage in with our co-workers and their boss. They have a sense of "what you are supposed to achieve" that derives in part from the goal elements of their co-worker's own internal models of work.

As direct reports negotiate these goals with their boss, they are confirming or replacing these 'developed implicitly through interaction with co-workers' elements of their personal job model. The "what I am supposed to do" parts of their internal model of their role become an open shared "expectation" framework negotiated between themselves and their boss.

Once this dialogue is done, and boss and direct report sign the performance contract, direct reports start to re-shape the other elements of their internal model of work to align with their performance contract. Their now explicit negotiated performance objectives are the framework that they use to dynamically re-shape the "how to I relate to my co-worker" elements of their internal model of work. Direct reports take steps, often unconscious and



instinctively shaped steps, to ensure that the “who do I need to interact with and how do I need to interact with them” elements of their guiding model of work are aligned with their negotiated objectives.

Direct reports do this dynamically, using all of their ability systems, including those that operate at the pre-conscious and instinctive levels.

4. Performance contracting focuses on negotiating shared performance metrics. The information needed to populate such performance metrics need to be independently available to both manager and direct report.

Much of this information will come from the automated business systems used by today’s organizations to do their work. Organizations simply need to take steps to ensure that direct reports can access the information needed by the performance metrics in their personal performance contracts.

Once this is in place, the dynamics between “boss and direct report” change in a fundamental and qualitative way. The manager is now free to do all of the things recommended in [“The Progress Principle”](#).

The manager is no longer the only source of “performance evaluation information”. It comes to the direct report regularly, as part of the day-to-day process of doing one’s work. Direct reports measure their delivery on their objectives by seeing the trends in their performance metrics.

The direct reports self evaluate performance through out the performance period (usually a year).

When things go off track, direct reports can take corrective action.

They may reach out to their peers for help and advice. They may engage their manager in coaching dialogue.

The manager is free to “encourage progress” and “nurture through appreciation” since the manager no longer delivers “subjective” evaluations of the person’s performance. These behaviours on the part of the manager are no longer experienced as “game playing” by the direct report.

If the direct report’s performance difficulties continue over time, the manager can become more energetic in initiating problem solving.

Since the need to do so is defined by the trend in the direct report’s performance metrics , the direct report now experiences the manager’s praising, encouraging and problem solving behaviours as true coaching – as messages that motivated by a desire to “help me to do my best”.

## **Move to Performance Contracting ...**

Every manager should encourage progress and nurture through appreciation. However, organizations that embrace forward-looking performance contracting create relationships dynamics between manager and direct report in which such behaviors on the part of the manager have true pay off. Performance contracting turns a “prescriptive – behave in this way” into a natural, congruent element of the productive working dynamics between manager and direct reports.

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## “Nurture through Appreciation” Questionnaire

Use the following checklist to see how your behavior as a manager relates to three nurturing direct reports best practices.

### Meeting Delivery Targets

1. When one of your direct reports delivers a task or deliverable on or ahead of schedule, you:

1	2	3	4	5	6	7	8	9	10

Treat this as normal – just part of the job

Sometimes take time to express thanks

Make sure to take the time compliment the person

### Showing Initiative

2. When one of your direct reports initiates and does a task or completes something that is not a normal part of their job, you:

1	2	3	4	5	6	7	8	9	10

Are pleased and show it

Thank the person for their initiative

Make time to sit down with the person and discover what led them to do this, and how it could expand the role

### Showing Innovation

3. When one of your direct reports develops or demonstrates a new better way of doing something that is part of their job, you:

1	2	3	4	5	6	7	8	9	10

Ask the person to return to the normal way of doing things

Thank the person for their efforts

Feature the person to your other direct reports and suggest that they do the same

## 6. How do you performance contract for organization turnaround?

Over the last two years, at executive networking sessions, I have heard hundreds of executives describe themselves as being excellent at turnaround. As I listened, I realized that they were describing their process improvement skills, not their corporate turnaround abilities. They were talking about fixing up part of the whole, not turning around the whole organization when it was under threat.



One morning, as I was driving, I hear a professional house renovator - a “house re-newer” - describe he what did. He took care to distinguish what he did from folks who called themselves “renovators” but were really “part of a house” fixer-uppers.

“When I renovate a place, the only things that will stay the same about the house are its external structure and its internal supporting walls. I pretty well gut everything else. When I am through, it’s a very different place to live in. It is a much more effective and efficient house. It operates better as a home, and costs much less to run. It usually looks better from the outside as well, although everyone can still see that it is the same house.”

What an insight! I immediately understood the difference between all those executives I have been listening to and corporate turnaround experts.

<b>Process Improvers</b>	<b>Organization Renovators</b>
Make improvements to 1 or more existing processes through improving automation or re-organizing work flow.	Address what needs to happen to ensure this organization survives and dramatically improves its results.  Figure out how to do it without destroying the organization (i.e. without tearing down “external and internal supporting walls” = destroying customer relationships or financial viability) while change is occurring.



<b>Process Improvers</b>	<b>Organization Renovators</b>
<p>Fit improvement into the “day to day” normal way of doing the other work in organization.</p>	<p>Tackle all processes in the organization and re-do them to achieve dramatic success.</p> <p>Do so a way that ensures that organization survives while undergoing whole scale internal change (i.e. the organization continues to serve customers, to provide services or make products, to pay its bills etc).</p>
<p>Help existing staff learn new improved processes</p>	<p>Challenge existing staff to come up to the new performance bench marks.</p> <p>Train them to do so if they are willing and if they can. If they don’t, bring in people who do and fully integrate them into the team.</p>
<p>Fit the new ways of doing things into the existing culture of the organization.</p>	<p>Re-shape the culture, energizing the people. Get them to believe in their own personal future with the organization. Move them from “react and get along” to “pro-act, create, provide services at extraordinary levels, achieve extraordinary results”.</p>

The metrics that are used in contracting with an executive for the improvement of existing process are straight forward. Processes do something. They produce output of some kind (e.g. service transactions, produces, units of information ....). They take energy to do (e.g. people hours, head count ...).

To develop a process improvement metric, all you have to do is count the output and the input reliably. Put units of output over units of input and you have a useful “point in time” metric for that process. Add a relevant time period (e.g. days, or weeks, or

months). Then watch the trend over time. When you do so, you have a clean, clear performance metric. Here are some classic examples:

- bank customers served per month / teller hours per month,
- bills paid per month / account payable staff hours,
- airline passenger miles per month / air crew hours per month,
- widgets produced per day / manufacturing staff hours per day.

Trend metrics such as these will tell you if the executive is “improving” the process.

You cannot take this approach when you contract with an organization renovation leader and his or her team. Every process inside the organization will be different by the time they through, just like the entire interior a house will be different by a true time house renovator is through.

Renovating an organization involves great urgency and wide-ranging change made under conditions of continuous organizational stress. Sometimes, part of the change goes backward for a time, in order for the whole change to go forward.

See [The Reality of Enterprise Turnaround](#) for more insight into these dynamics.

It is located at

<http://www.wcilt.com/pdfquark/realityentturnaroundsv312col.pdf>.

Copy the URL and paste it into your Browser if the link about does no work.

So how do you “measure” the performance success of an organization renovation leader and team? You need to take a much broader approach to metrics than when you are contracting for process improvement.

**1. Use metrics that look at the whole organization from the outside in.**

All kinds of process change will be happening in an organization during renovation. However, the overall pattern of positive change will be reflected in the trends in such “from outside the organization looking in” metrics.

An example is “\$revenue produced / \$dollar of operating expense” per month. Watch the trend. A downward slip for a month or two is expected. But a clear downward pattern that shows no sign of turnaround is not.



Using a number of them is better than using just one. When you do so, you can see if the general pattern is positive, even though one or two may be on a short term downward trend as change moves forward.

Add these whole organization metric trends to a “menu” of process improvement trend metrics that focus on specific internal process. An experienced organization renovation team uses both to monitor the impact of what they are doing both on specific processes, and on the whole organization.

2. **Expect the organization renovation leader and team to show how they are making both short term immediate changes and long term changes at the same time.**

Listen to them as they talk about this with you on a regular basis. If they cannot show how they are doing this, then this absence is in itself a “negative metric”.

Ask for regular “review” sessions with the team. Expect the leader and the team to “insist” on having them. Expect them to initiate on the development of process improvement specific metrics that show what is happening as a result of their changes. Also expect them to develop and use relevant “outside the organization looking in” metrics to keep track of how the overall change is going.

An experienced organization renovation team is profoundly metrics based. They do not believe in the “power” of their personalities as the key to change. They do expect turbulence during the change. They have an integrated approach to change that both makes sense in the longer term and adapts to short term events as they move the organization renovation forward. Just like a house renovator, they take what they uncover into account as they make change.

3. **Expect negative trends in some of the process specific improvement metrics while you are seeing positive trends in others.**

The turbulence experienced during an organization renovation can mean that things can look worse before they look better. Just imagine what the inside of a “renovated” house looks like before house renovators start building the new walls.

4. **Work with renovation team to identify the “supporting walls” for this organization – the key things that must continue to be in place while the change is happening.**

Develop metrics for each one. “Revenue per customer” and “customer satisfaction / engagement “ are two examples for a customer service organization. Bringing

## Move to Performance Contracting ...

revenue in is a “supporting wall” for such an organization, and is maintaining the customer’s satisfaction level and engagement.

Watch the reaction of renovation leader and the team to any negative sustained trends in these metrics. They are about the organization’s survival. Expect them to understand the importance of these metrics, and take negative trends in these key “survival” metrics extremely seriously. They need urgent corrective action.



Turning around an entire organization is very different from turning around a specific process within an organization. But you can still develop effective performance contracts for such total organization change. You just need to make use that the performance metrics that you use reflect the totality of the change. You will know that you have the right turnaround leader and team when they are just as concerned about developing, monitoring and adjusting their work to a set of such metrics as you are.

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**7. How do you use performance contracting to pick “good”, rather than “bad” organizational leaders?**



[“Why Are We Bad At Picking Good Leaders”](#) is 5th on Harvey Schachter’s Toronto Globe and Mail Ten Best Business books of 2011. In it, Jeffrey Cohn and Jay Moran present the 7 characteristics that they correlate with good leaders.

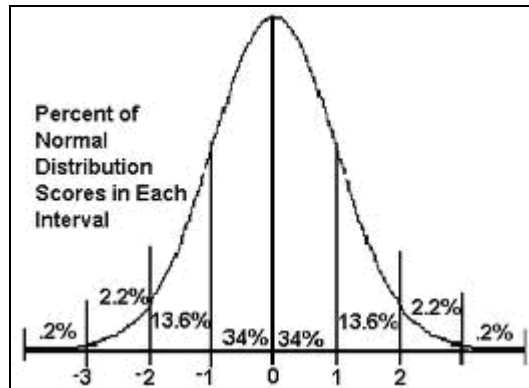
1. Integrity
2. Empathy
3. Emotional Intelligence
4. Vision
5. Judgment
6. Courage
7. Passion

These qualities have been praised by many other “leadership” writers over the years. Cohen and Moran tell organizations to select for organizational leaders who demonstrate these qualities. They provide “stories” which illustrate how they believe that organizations can do so.

But all of this advice may be missing an essential point. Finding a person who is exceptional on these 7 qualities may be a next to impossible task for most organizations.

Suppose that a “good” leader needs to demonstrate possession of all 7 qualities at a level that is at least 2 standard deviations above average. Simple math will show that the likelihood of finding, i.e. selecting, such a person is very slight.

Move to Performance Contracting ...



The normal distribution graph shows that only 2.4% (=2.2% + .2%) of the population will be 2 standard deviations above average when you consider 1 characteristic. If you expect an individual to be 2 standard deviations above average on 7 qualities, you have to multiply 2.4% by itself 7 times. If you do this on your calculator or in Excel, you will get a very small number indeed. The following table shows the probability of finding a person who is 2 standard deviations above average on a progressively greater number of qualities. As you can see as you want people to have such outstanding levels on more and more qualities, the less likely you are to find them.

# of Qualities	2 Standard Deviations above Average		1 Standard Deviation above Average	
	Cumulative Probability of Finding	# individuals in 1,000,000 people	Cumulative Probability of Finding	# individuals in 1,000,000 people
1	2.4%	24,000	16%	160,000
2	0.0576%	576	2.56%	25,600
3	0.0013824%	13.8	0.41%	4,096
4	0.0000332%	0.33	0.07%	655.4
5	0.0000008%	0.0080	0.0105%	104.9
6	0.00000002%	0.00019	0.00168%	16.8
7	0.0000000005%	0.0000046	0.00027%	2.7

Let's make it easier. Say that a good leader only needs to demonstrate these 7 qualities at a level that is 1 standard deviation above average. Even in this case, the chances of finding individuals who demonstrate all 7 of these qualities at this level are still pretty slim (2.7 people in each 1,000,000).





But we need to move beyond statistics. Cohn and Moran's 7 qualities are not "simple" human behaviors. They are human characteristics that depend on a complex interactive mix of genetics, up-bringing, experience and education. This is the reason why years of time and millions of dollars of organizational investment in "leadership" training and development have not really produced an abundance of "effective leaders" who possess these 7 qualities at these levels.

Does this mean that most organizations might as well forget the process of "finding" or "developing" good leaders? I don't believe so. What can an organization do to find and to develop better leaders?

Organizations certainly need the succession planning processes that Cohn and Moran advocate. But organizations need to base their decisions about individuals in such succession planning processes on an underlying performance management process that is strongly based on forward-looking, metric-based performance contracting.

An individual who consistently achieves or better metric based performance targets over a number of years, in a variety of executive positions, is a potential future organizational leader. That person is demonstrating that she or he can apply the "right" personal characteristics to stand out from the average performer in "this" organization. Useful leadership is always demonstrated in the context of an specific organization's shifting specific economic, technological, social and cultural conditions over a number of years.

The abstract "leadership characteristic" labels (e.g. Integrity) used by Cohn and Moran, and many other writers on leadership, tend to ignore this. Executive search consultants and academic writers turn "leadership" into an abstraction precisely because they are removed from the day-to-day performance of people in their client organizations. They do not have to deal with leadership as a concrete set of behaviors demonstrated by a specific individual that lead to valued results in a specific organization over a significant period of time.

Executive search consultants perpetuate this tendency to relate "leading" to these kinds of highly abstract personal characteristics. It is a core assumption necessary to the continuation of their business. Unless clients believe that leadership is "transferable" from one organization to another, retained executive search for leaders from outside an organization makes no business sense.

If we approach "leading" in a less abstract way, and focus more on demonstrated "in context" performance, organizations are more likely to succeed at picking "good"

leaders. Organizations that seriously want to “pick and develop” the leaders they need for the future will do the following.

1. Take care to develop their internal performance contracting competencies. They will use forward-looking personal performance contracts. These contracts will include a process by which boss and direct report contract to use metrics to track direct report performance delivery progress. These metrics will derive from the automated business applications the organization uses to track and to manage the work done on a day-to-day basis.

Once such a forward looking contract is “signed” by both boss and direct report, these metrics will be delivered independently to both boss and direct report over the course of the performance period. As a result, the power relationship between them will shift. Bosses are more likely to become coaches when direct report performance goes off-track. Direct reports are more likely to “ask” for help when they see that they are under achieving.

2. Ensure that this performance contracting and progress monitoring process is in place for at least the “manager of others” levels and above in the organization.
3. Engage the senior most executives in systematically reviewing actual performance on such performance contracts by top performers: - individuals who consistently achieve and deliver at or beyond their contracted performance metrics.
4. Promote such top performing individuals so that over the years their job scope becomes more complex and wide ranging. As a result, maintaining “top performance” status will become harder and harder for such individuals over time. This will refine the identification of potential leaders based on actual performance, not personal loyalty or personality fit between boss and subordinate.
5. Move consistent top performing individuals to a variety of lateral assignments over the course of their career. This will allow the organization to see if their ability to deliver at or beyond contracted personal performance levels remains the same in a variety of organization environments (functional, operational and geographic).

”Picking good leaders” in this way will take commitment over a number of years. The performance contracts for the CEO and the CEO’s immediate reports will require the presence of metrics that “show” that this is being well done.



Organizations that do this will not be “bad” at picking good leaders. Instead, they will be shaping their futures in way that increase their probability of long lasting competitive success over a number of executive generations.

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## **8. Why I stopped doing performance appraisals and learned to implement performance contracting**

### **How I Made the Decision to Stop**

Over the course of my career, I have led teams of creative technical professionals, as well as whole organizations. Much of my executive work has been done in turn around situations – either of an existing IT group or the whole organization.

Since my academic training includes work place psychology, I always have been intrigued by what academics and human resource professionals have had to say about performance appraisal. Early in my executive career, I followed the best practices in performance appraisal recommended by both groups. Performance management was a key tactic in my turn around and culture change work.

After a number of years, I realized that my experience with performance appraisal as an organization and culture change process left me feeling disappointed. Performance appraisal did not inspire people. It did not support my change process.

- I needed people to face our new future. Performance appraisal deals with the past.
- I needed people to commit to the results we needed to achieve. Performance appraisal told them, usually without clear performance evidence, how they had performed in the past.

The whole performance appraisal process seemed terribly subjective and power based.

I use employee satisfaction surveys as a culture change mechanism. Properly constructed and administered, such surveys monitor the effectiveness of my culture change efforts. I added questions about how staff saw performance appraisal as a result of my disappointment with it.

I quickly learned that the individuals who worked for me really disliked the performance appraisal process. Managers did not like doing them. Staff complained that they were arbitrary and de-motivating. Nobody felt that they actually helped people improve their performance.

I systematically reviewed the HR industry writing and academic research on performance appraisal. Mostly, it told me to try harder. It also told me annual performance appraisal without regular “through the year” meetings between manager and direct report was not likely to lead to performance improvement.



Based on this, I started to ask HR professionals in other organizations about their employee satisfaction survey findings about performance appraisal. I was able to tap into a research source that had confidential access to many such surveys. I found that people in most other organizations shared the frustrations of the managers and the staff who worked for me about performance appraisal.

So I asked myself:

- “Why did I continue to use a performance management process which demotivates most people, the very opposite of what I am trying to achieve?”
- “What management purposes did performance appraisal really serve?”

**My answer to the first question was straight forward: stop doing performance appraisal and find a better way to motivate people to perform when doing organization turn arounds. I did.** Eventually, I wrote a white paper on how I used performance contracting as an organizational change and organization renovation tool.

(See “[Change Organizations = Changing Executive Performance](http://www.21cstaffing.com/21cstaffingpdf/chgorgchgexerperv21.pdf)” on the web or copy and paste the following URL into your browser: <http://www.21cstaffing.com/21cstaffingpdf/chgorgchgexerperv21.pdf> ).

The answer to the second question were equally clear – in the research literature, in the HR industry press, and in what managers told me when I asked them. Here are some typical answers from managers that summarize my findings.

- “I need performance appraisal ratings to support the way in which I distribute year end bonuses to my people.”
- “By the time I finish the performance appraisals for my group, everyone is clear that I have the power as the boss to evaluate what they do. Performance appraisal re-enforces my authority over them, since it determines bonus payouts in our company.”
- “HR keeps bugging me to get my performance appraisals done every year end. It is just something we do at year end. They collate the results for the whole organization and report them to the Board. But for the rest, performance appraisals don’t seem to lead to any real results, even when we rate people as exceptional or as poor performers. It is just somewhat we have to do as managers.”

## **Facilitating a Performance Level / Culture Fit Evaluation Process**

At this point in my career, I took on the culture change leadership of a 1500 person organization of technical professionals. The existing culture was reactive, rather than proactive. The people were technology oriented rather than customer service oriented.

Performance management, based on the performance appraisal processes used in the rest of this major financial services corporation, had simply not been done for over 5 years. The argument presented by the previous management of this group was “We are too busy to waste time on performance appraisal”.

The new leadership team did many things to turn around this organization. As culture change leader, I was responsible for re-vitalizing the performance management process. As well, I led the internal and external recruiting process that created a new management layer in this organization.

As individuals, and as a group, the members of this management team did not have valid insight into the talent and performance of the individuals in their teams. They needed a process that gave them “documented” insight into the caliber of these individuals. They needed to understand the fit of their team members to the new performance culture we were creating. The grid at the top of the following page summarizes these needs.

I designed, led and facilitated the difficult and contentious process that accomplished this. The process cascaded “up” in each working group in our IT organization. All the managers and directors from each IT sub-group, the vice-president involved, as well as appropriate managers from their “client and service groups”, attended each working session.

HR professional staff attended as “documenters”. They produced summary transcripts of the discussion about each individual and the placement of each person on the grid. These individual documents were signed by the managers involved in the dialogue. They became the replacement for the missing performance appraisal files for all of the individuals in this organization.

## **Evaluating Personal Performance and Future Culture Fit in A Turnaround Situation: The Process**

### **The structure of the meetings**

Each person in a manager’s group was discussed in turn. We worked through all of the individuals who were direct reports to lowest level of manager in the room. When all of their direct reports had been discussed, this level of managers left the room.



		Fit to the culture we were creating	
		High	Low
Performance Delivery In the past two years	High	<p><b>Keep</b></p> <p>= energize through performance contracting</p>	<p><b>Save</b></p> <p>= help make a transition to the new culture through performance contracting and personal development / coaching</p>
	Low	<p><b>Review</b></p> <p>= decide if we could get better performance by investing in a person's skill upgrade &amp; delivery improvement</p> <p>Or</p> <p>Out Place</p>	<p><b>Out Place</b></p> <p>= move out of our IT organization as quickly as possible</p>

The directors they reported to now went through the same process for the departed managers. This procedure cascaded up the reporting levels in the room until only the direct reports to the vice-president involved were left.

The direct reports to the vice-president level were discussed in a separate meeting of all of the vice-presidents. Appropriate key vice-presidents from the IT group's client organizations were involved in these discussions.

## Evaluating individuals using behavioral evidence

1. The manager described “what the person in his or her team was responsible for”. The other managers were polled to see if they agreed, or wanted to change elements of the responsibility description.
2. Once the “responsibility” for a person was agreed to, the manager talked about how the person’s delivery on these responsibilities was to be measured. Other managers had to agree that they could “see” these metrics. Each metric were refined until it met this criteria.
3. The manager then presented a judgment about where the person’s performance in the past two years fell on these metrics. On the basis of this, the person was assigned to the High or Low group on the performance axis of the grid on the previous page.

Other managers, particularly managers from the client and service organizations, had to agree to and support this judgment. When they did not, the facilitator managed the discussion which resolved the difference in perceptions, and resulted in the person’s final placement.

4. The discussion then shifted to the person’s potential fit to the new culture. This dialogue started from a set of general criteria that was used in all of the meetings.
  - **High Fit** to our new culture = person’s behaviour consistently demonstrated:
    - a concern about delivering results in a customer oriented way,
    - a willingness to accept and to act on metric based feedback on personal performance.
    - a willingness to learn new interpersonal skills if this was required to become a better team member and collaborator with others.
  - **Low fit** = person did not show behavioral evidence of the three High Fit criteria.

To reduce the impact of “group think” on this process, each involved manager wrote down their personal rating of the individual being discussed before the dialogue started. These independently made judgments were disclosed as the first step, between any dialogue. Differences in judgments led to lengthy discussion. Agreement in perception was explored by asking the manager’s involved to publicly state the reasons for their judgment.





Although this discussion was more subjective, the managers quickly learned that agreement among a relevant sub-set of the people in the room, who had substantial day-to-day contact with the individual being evaluated, led to “inter-subjective” objectivity.

5. Once the discussion was complete, the manager involved took a sticker with the evaluated person’s name and placed it in the appropriate place on a wall version of the grid shown previously. The manager did this in front of peers and superiors. It turned the discussion into a public display of the manager’s final judgment of the person. From a psychological point of view, this action turned a verbal dialouge into a personal whole body commitment in front of a group of relevant peers and superiors.

As the discussion progressed, this wall grid became a constant reminder of discussions that had gone on before. The dialouge about each current individual was in the “foreground” during the discussion of that person. The need to place this person on this wall at the end of the dialogue meant that the dialouge about the current person was constantly in relation to the “background” of all of the other people in the group. This foreground / background dynamic - taken from Gestalt psychology - increased the accuracy of the results.

The first dialogues about individuals took a long time in each new group. The managers were learning the process they needed to use in these first discussions. The facilitator strongly guided them on the process to use during these first evaluations.

The facilitator constantly challenged the managers to move from statements of “like or dislike” around the individuals to performance and metrics based judgments of their team members. The facilitator regularly noticed “non-verbal” indications of differing perceptions or disagreement in other managers in the room. The facilitator asked such individuals to provide their input if they did not speak up themselves.

### **Learning new skills important to the new culture**

During these first dialogues, the managers learned how to use performance metrics to provide evidence of performance, something that had been missing in this organization. They learned to do this through acting under the guidance of the facilitator.

As the managers worked through their first disagreements in perception of the individual currently being discussed, they moved from feeling based conflict to

resolving conflict through the presentation of evidence. Once again, this action based learning taught a skill badly lacking in this organization.

Finally, the managers learned that evidence based “inter-subjective” agreement was the key to being accurate in their evaluations of individuals. They learned to listen to others’ perception of an individual. They could see the common elements in the perceptions, and realize that agreement in perception across several people was often a more accurate picture of an individual working for them than their own.

As they acquired these skills, and as job based patterns of personal responsibility and metrics developed, each individual took less time to evaluate. The ability of the HR professionals to provide evidence from their transcripts of the ways in which previous versions of these patterns were resolved also reduced the time the group needed to effectively consider an individual. The presence of the “grid” on the wall, with its visual placement of the individuals who has already been discussed, allowed the managers relate elements relevant to the current individual under discussion to these re-occurring patterns.

### **Implementing Performance Contracting with the ‘Keepers’, ‘Savers’, and ‘Reviewers’**

When I designed this process, I anticipated the problems associated with changing the definition of peoples’ roles (e.g. constructive dismissal) and out placement (e.g. wrongful termination).

The HR group in this organization developed an effective out placement program for the people in the Low Performance – Low Cultural Fit = Out Place box. Not a single individual (there were several hundred) challenged their outplacement.

1. The settlement packages were reasonable, and conformed to current precedents set by the courts.

The cost of these packages, although considerable, was low compared to the benefits **obtained through tremendous upsurge in productivity** that occurred in this organization as soon as these “Low-Low” people were gone. The departed were no longer a “drag” on this organization.

2. These technical people support the overall productivity of a multi-billion dollar organization through the services they delivered. The dramatic increase in service delivery by the remaining IT staff put many times the cost of the outplacement program on the bottom line.
3. The evaluation process was very accurate. Socially, every person who remained in this IT organization knew that that this process had identified the actual non-performers in the organization. As a result, they supported the outplacements.



As part of our positive work with the “Keepers, Savers and Reviewers”, we focused on what they were to do in the coming months. Managers sat down with the “Keepers, Savers and Reviewers” and talked about what they were supposed to do. They “negotiated” performance goals with them. They also negotiated the metrics that would be used to evaluate each person’s upcoming results delivery. They succeed at this because of new skills they had acquired during the evaluation process. Performance contracting was a natural extension of this group validated individual evaluation process.

Most of the low performers who did fit our new forward-looking, customer-oriented, and metrics-using culture simply stopped being low performers. They liked the fact that they could “self-evaluate” their own performance over the year based on the metrics in their performance contracts. When they had problems delivering, they asked either their manager or their peers for help to fix the issue.

Of course, there were a few problem folks. Most of them came to the conclusion that our new culture was not for them, and left of their own accord.

We did have to take a “out placement” steps with a very few individuals over the next year or so. Doing so was quite straight forward. The individual had agreed to the metrics in the personal performance contract. The fact that the person was not delivering to the level contracted could not be disputed. The factual evidence collected to populate these metrics was straight forward. These facts could not be denied. As a result, managers could directly address the need for these individuals to improve their performance. HR based support resources helped managers to prepare for this manager – low performer problem solving.

Their performance of these individuals either improved, or they came to the realization that they needed to leave.

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I have never done a performance appraisal since this experience. I simply don’t believe performance appraisal is useful for motivating individuals to perform. That’s why my slogan for performance contracting is:

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