

Tough love

Research report 2006



Foreword

Our research, 'Tough love', conducted in conjunction with *Personnel Today*, reveals that organisations in the UK face significant poor performance issues, despite many years spent developing 'best practice' approaches to performance management. Merely going through the motions and tweaking the processes every few years is clearly not addressing the underlying causes of poor performance. With 'Tough love' we set out to explore how big an issue poor performance is for UK organisations and its financial impact on business.

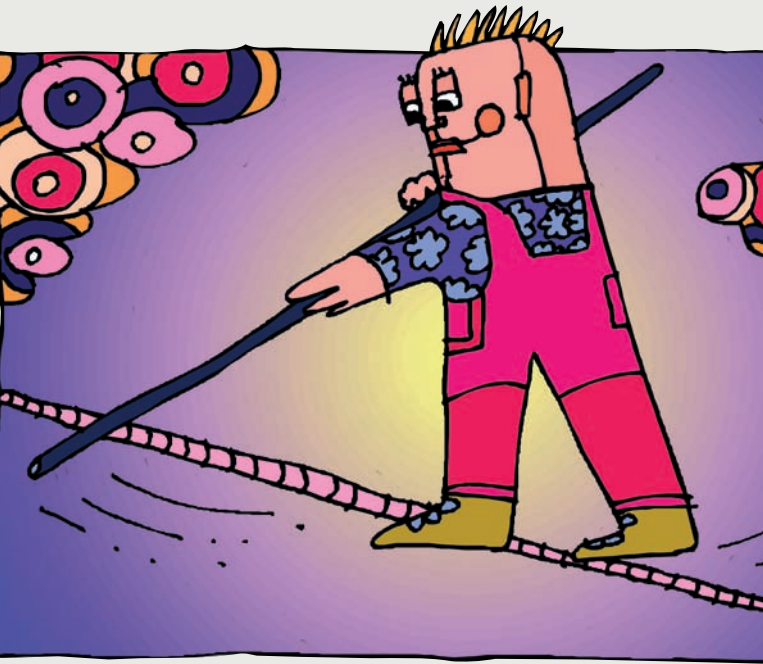
Our report findings pose fundamental issues for shareholders, as well as employees, employers and customers.

Now is the time for organisations to re-think how they approach performance management, and move away from a process-driven method to one that is motivational and engaging for employees. The cost implications of poor performance create a strong case for organisations to invest in getting it right, otherwise they will fail to maximise the return on investment in their employees.

High performance is achieved through the quality and nature of the conversations between manager and employee, rather than the process or system itself. Transforming managers from 'managers of performance' into 'enablers of performance' is essential, but these findings highlight the importance of getting the fundamentals right first.

Businesses continually face competitive challenges, so can ill-afford to squander the talents and capabilities of their employees – now more than ever is the time to get tough. Ultimately, this means rising to the challenge of having tougher conversations with people whose contribution is not adding the best value. By creating a motivational and engaging climate that enables everyone to succeed, both individuals and organisations will be liberated to achieve their best, thereby truly unleashing potential.

Sarah Chiumento, Chief Executive



At the heart of every successful organisation is a high performing workforce. This research reveals just how far employers are from cracking performance management – the key to a motivated and effective workforce. As well as revealing the extent to which performance affects employers the survey highlights the fact that performance management processes simply aren't working. Performance and productivity are ongoing challenges for UK plc. In order to overcome these challenges employers need to truly understand what motivates their employees and to equip managers with the skills to turn this into high performance.

Martin Couzins, head of content, Personnel Today

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Main findings

- Poor performance is a problem for 96 per cent of UK organisations despite the fact that 64 per cent of respondents believe their organisation is much better at identifying poor performance compared to two years ago
- Sixty-seven per cent agree that poor performance affects productivity, while a quarter believe it leads to lower profits
- Eighty two per cent of organisations have reviewed their performance management process in the past two years, yet despite this one in six employees is deemed to be a 'poor performer'
- Eighty per cent believe that line managers lack the necessary skills to deal with poor performance and that this is the main reason why the problem is not dealt with promptly
- Overall, 39 per cent believe that the culture in their organisation is tolerant of poor performance, with an alarming 63 per cent of government respondents believing this to be the case in their sector
- Retail, government, health and education sectors are deemed to have the highest proportion of 'poor performers'
- Line managers spend an average of 1.6 days a month dealing with under-performers.

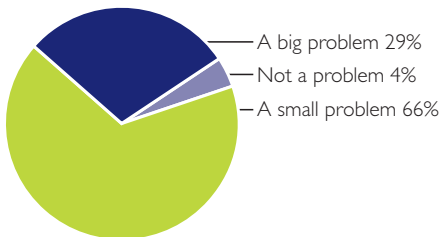
Exploring the findings

The extent of under-performance in UK business

Poor performance is an issue that appears to affect almost every organisation in the UK. Overall, 96 per cent of respondents regard it as a problem in their organisations, with almost a third (29 per cent) believing it to be a big problem. Only four per cent believe poor performance is not an issue.

The public sector suffers worst, with 40 per cent revealing that it's a big problem compared with 27 per cent in the private sector. In particular, poor performance appears rife within government and education, with 43 per cent and 42 per cent respectively admitting it's a problem. While poor performance is less of an issue for the private sector, retailers buck the trend, with 41 per cent of retail managers perceiving it to be a big issue.

How big an issue is poor performance in your organisation?



Overall, bosses consider 16 per cent of employees to be under-performers, a worryingly high figure. Just over half (53 per cent) are considered good, while fewer than one in three are considered outstanding or excellent. Looking at sectors, retail fares the worst with 20 per cent of employees classed as poor. Health fares only slightly better (19 per cent), while businesses in banking and IT are happiest with the performance of their employees, with only 14 per cent considered to be under-performing.

The implications of poor performance

Addressing poor performance has real bottom line implications. More than two-thirds of respondents (67 per cent) claim that the greatest impact of poor performance is on productivity. This is followed by 64 per cent who believe that it leads to reduced morale among their workforce. Exactly a quarter admit that it leads to lower profits while just over one in 10 believes that it leads to increased difficulty when recruiting new people.

The actual time spent dealing with poor performance is another cause for concern. More than a third of line managers (36 per cent) spend between one and three days a month dealing with under-performers, while almost 7% spend four to five days. The average amount of time spent on dealing with poor performers is 1.6 days a month, representing a significant amount of a manager's time that could be spent on more profitable tasks.

Getting tougher?

How do businesses currently deal with poor performers? Just under half (48 per cent) believe they are tougher now than they were two years ago, while 16 per cent believe they are now much tougher on poor performance. Only two per cent believe that they are less tough.

One in four IT firms believe that they are now much tougher on performance than they were two years ago. As IT is the sector that has the least problems with poor performers, its 'Tough love' attitude seems to be reaping benefits. This is not the case within government organisations however, where only one in 10 believes that they are much tougher today. This figure is largely the same for the public sector as a whole, with only 11 per cent of managers considering themselves

What is the impact of poor performance on your organisation?



“The key is to provide staff with meaningful work wherever possible, do all the right things to motivate, provide support where it is needed, effectively develop those who cannot perform well, and manage those who won't perform well.”

to be much tougher on poor performance than they were two years ago, compared to 20 per cent of managers within private sector firms.

Many also feel that poor performance is not dealt with promptly within their organisation. Four in five respondents lay the blame for this at line managers' doors and cite lack of skills as the principal reason. Managers often take the blame for poor performance even though it may stem from the organisational culture rather than managers' lack of skills. Indeed, nearly four in 10 respondents (39 per cent) believe that poor performance is not dealt with because it is tolerated within the organisation. This figure rises dramatically to 63 per cent among government organisations.

Identifying poor performers

There appears to be a correlation between organisations that are able to identify under-performers and those that are tough on dealing with the issue.

Almost two-thirds of respondents believe they are now better at identifying poor performance than they were two years ago, while a third believe they haven't improved. Government organisations are least likely to believe they are much better at identifying poor performance, and only 6 per cent believe they are much better. Only 22 per cent of retail organisations claim they are much better at identifying poor performance nowadays.

Although the consensus is that organisations are tougher on poor performance, is the way in which they currently deal with it working?

Although the majority of firms (82 per cent) claim to have formal procedures in place to deal with performance management, the effectiveness of these procedures is debatable. However, this is

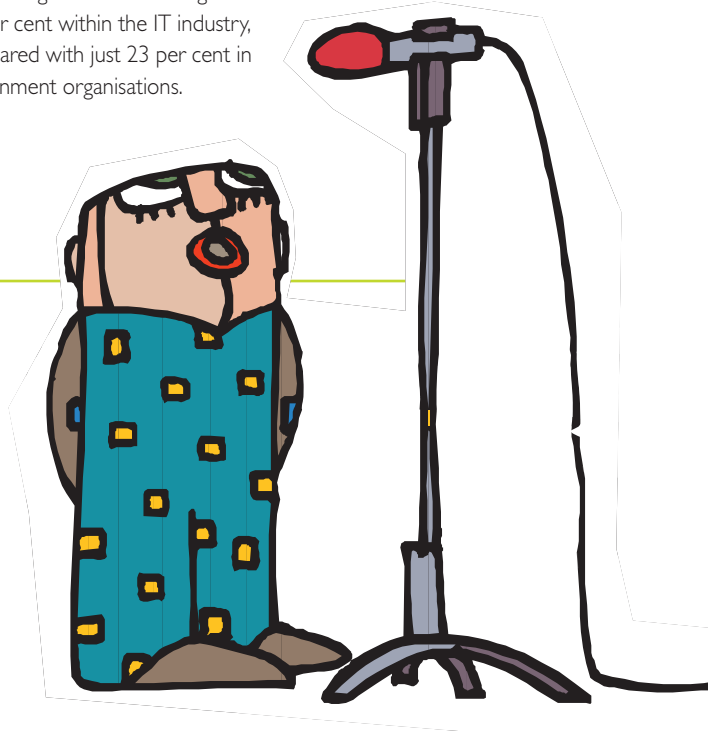
better than the 16 per cent of organisations who do not have any processes in place - a worryingly high figure considering the prevalence of poor performance. Educational institutions are the least likely to have formal procedures in place, only 65 per cent state that this is currently the case, while government organisations are the most likely (90 per cent). However, the impact of this is questionable given that they are the biggest culprit in dealing effectively with poor performance.

Further evidence that these methods are not improving performance is the fact that eight out of 10 organisations reviewed their performance management procedures within the last two years, yet poor performance is still rife within organisations. Ultimately, it seems that performance management processes have failed as an effective means of bringing about sustained improvements in performance. It is increasingly apparent that there needs to be a significant shift in how organisations approach performance management.

Encouragingly, almost half of respondents (48 per cent) believe that the most common outcome of their performance management initiatives is that performance improves to a satisfactory level. However, 16 per cent admit that there is no change, although this rises to 25 per cent within government. More than a third say the most common outcome is for the under-performing staff to be managed out. This rises to 54 per cent within the IT industry, compared with just 23 per cent in government organisations.

“Managers should be empowered to manage staff and take responsibility for their performance management. Performance management is a day-to-day responsibility and shouldn't happen once a year at the annual review.”

Methods currently used to measure performance



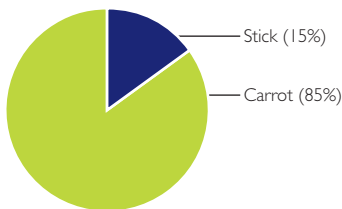
In an ideal world

If organisations were better at managing poor performance, almost two-thirds (62 per cent) believe that it would have a significant positive impact on their businesses. The greatest impact would be on enhanced employee morale (65 per cent), while more than half (55 per cent) believe it would lead to increased productivity. The importance of performance to business' bottom line is highlighted by the 21 per cent who believe it would lead to higher profits. The impact of improving performance is shown below.

Carrot or stick?

Respondents largely agree that the carrot approach is more successful in getting the best performance out of employees. Eighty-five per cent believe that this is preferable in engaging with the workforce.

Does the carrot or stick approach work the best?

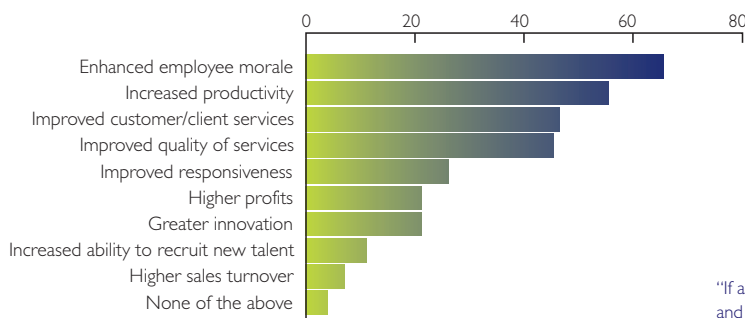


However, the stick approach is the preferred method by 15 per cent of organisations, a view that is unlikely to help maximise their return on investment in their employees. This approach is more popular among charities and government: one in five managers admit that they prefer the stick to bring about a change in staff performance. The carrot approach is more likely to be used by those in manufacturing (92 per cent), IT (89 per cent) and education (88 per cent).

Is the law on your side?

More than half of respondents believe the law works against them when dealing with poor performers (54 per cent). Legislation has been introduced that rightly protects the employee. However, if performance management was focused on how to achieve improvement with a particular individual as opposed to merely managing performance by setting more stretch objectives, organisations may be able to avoid having to manage employees out. For this to happen there needs to be a shift away from a mechanistic, process-driven approach to performance management to one that is more involving and motivational for employees – and more fulfilling for managers. However, getting the basics in place first is essential.

Which areas of the business would experience the greatest impact if performance improved?



"If a manager is supportive, fair and motivational, yet an employee still underperforms, then the manager needs to have the skills and confidence to deal with it."



Performance management questionnaire

Review each of the questions and rate your organisation on a scale from 0 to 10.

Our....	0	10	Score
Performance management process is...	Bureaucratic and provides little benefit to either manager or employee	A valuable tool which enables managers to get the best from their people	
Managers...	See their role as primarily about delivery of tasks – managing performance of others is an unwanted distraction	See managing people as central to their role and devote considerable time to getting the best from their people	
Approach to managing performance is...	Mechanistic and procedure driven – it takes little account of individual needs	Based on developing a deep understanding of how to get the best from each individual	
Performance measures are...	Primarily concerned with compliance and control	Primarily designed to provide feedback and learning to enable higher levels of performance	
Performance management discussions are predominantly...	Backward looking and concerned with reviewing past performance	Future focused and concerned with creating a meaningful and motivational performance contract	
Approach to development is...	Concerned primarily with identifying and addressing weaknesses; no attention is paid to future career aspirations	Primarily focused on identifying and building on strengths; considerable time is devoted to understanding aspirations and personal development needs	
Feedback is...	Infrequent and primarily focused on criticism; little or no recognition for good work	Regular and constructive 'coaching' takes place; spontaneous recognition is given for good work	
Goals & objectives are...	Vague and imprecise; employees do not 'buy into' them	Meaningful and emotionally engaging; employees are highly committed to them	
Manager / employee conversations about performance are...	Infrequent and there is little mutual trust between managers and employees	Regular and motivational and manager / employee relationships are based on mutual trust	
Approach to delegation is such that...	There are unnecessary restrictions on delegated authority; managers are not prepared to 'let go'	High levels of delegated authority exist; employees are given considerable scope to use their judgement and experience	
Performance contracts...	Are unclear as to what is expected of employees; no commitments exist on behalf of managers as to how they will support employees	Are precise and unambiguous; both parties (manager and employee) know what is expected of each other	
Approach to training and skills development provides...	Limited training to provide skills for jobs and little ongoing management support	Extensive training and development plus active management support to enable success	

Add up your scores

0-50 Abdication of performance: Your approach to managing performance is in need of urgent review – it is potentially destroying more value than it is creating

50-100 Management of performance: Scope for improvement – look at any area where you scored less than 7 and consider actions that you could take to increase your score on these dimensions.

100+ Enabling of performance: You have a high performance culture embedded within your organisation. Your approach to performance management is conducive to creating high levels of employee engagement.

We would like to hear from those organisations who scored 100+ on the above questionnaire and who would be prepared to feature in a case study and / or take part in a 'best practice' benchmarking project. If you are interested please contact Clare Thomas on 01 865 882100 or email cthomas@chiumento.co.uk. However, if you did not score so well you might be interested in finding out how Chiumento could help your organisation. For further information contact us on 020 7224 3307 or email info@chiumento.co.uk

Total

Performance management in practice

Getting the basics in place first is crucial – there's no point in trying to run before you can walk – but there is no doubt that there is a need to move from an over-reliance on systems and processes and adopt approaches which are more successful in engaging employees. The missing ingredient in achieving effective performance management processes is frequently the fact that they are not motivational and inspiring.

Some suggestions as to how to improve matters are as follows:

- Coach managers better in how to provide more regular constructive feedback and recognition
- Don't just focus on attempting to remedy employees' 'weaknesses'
- Seek to understand the reasons underlying poor performance and address the causes
- Ensure that performance contracts are two-way and include an agreement as to what a manager is going to contribute to enable the employee to be successful
- Stop focusing on the past at the expense of the future
- Hold managers accountable for the climate they create
- Spend more time exploring individual needs and career aspirations – a key element in securing employee engagement and in the retention of high performers
- Review your approach – make sure that what you measure encourages the behaviours and performance that you want to see

To find out how Chiumento can help improve performance management in your organisation contact us quoting 'Tough love' on 020 7224 3307 or email info@chiumento.co.uk

Chiumento regularly undertakes research on Human Resource issues. To access other Chiumento research documents, go to www.chiumento.co.uk/infospace

Contact details:

London : 24 Park Square East, Regent's Park, London NW1 4LH. t: 020 7224 3307

Oxford : 8 Elm Place, Eynsham, Oxford OX29 4BD. t: 01865 882100

e: info@chiumento.co.uk www.chiumento.co.uk