Practical Ways to Lead an INNOVATIVE ORGANIZATION

MODERN MANAGEMENT MADE EASY: BOOK 3

Author of *Manage Your Project Portfolio: Increase Your Capacity and Finish More Projects*

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Practical Ways to Lead an Innovative Organization

Modern Management Made Easy, Book 3

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Practical ink

4. Must We Manage Performance?

I "participated" in performance management in my very first job. My boss and I sat down and dutifully created my yearly goals. At our weekly one-on-ones, he offered me feedback and supported my work.

At the end of the year, I eagerly awaited my performance evaluation. I'd accomplished a lot.

I received an outstanding performance evaluation and a 15% raise—quite significant at the time.

I had lunch with some of my colleagues, and we compared the percentages of our raises. (You think people don't talk about money? Of course, they do.)

A male colleague congratulated me on my percentage. It was four percent higher than his. Then he told me how much he was making per year.

His salary was almost 10% higher than mine. And, that was after my monstrous raise.

I was angry. I made an appointment to see my manager after lunch. I told him what I learned, that a male colleague made more money than I did. Was I correct?

He nodded. I was.

I told him I wanted total pay parity now. I was willing to wait for the next paycheck. But I didn't want to wait another year for pay parity.

His exact words to me were, "I can't do that. I maxed out your raise.

We offered the male college grads more than we offered the female grads last year."

I was stunned. "Even though I had relevant coursework and paid experience while I was in school? And, even after I've done a demonstrably better job?"

"Yes."

I learned something valuable. My evaluation was not about *my* performance. At least at that organization—and I suspect at many others—performance "management" is salary management. Performance "management" allows the organization to manage salary costs, not performance.

My boss had a too-small pool of salary increases. Even though I had exceeded all my goals and expectations, he could not compensate me fairly because the salary increases were not tied only to *my* performance. I *competed* with my colleagues for my salary increase.

And, because the "performance management" was really about salary management, the entire activity *looked* fair. (See Should We Treat Everyone the Same Way?) However, none of us received appropriate salary treatment.

We had massive salary disparity.

That's because the company calculated increases based on our starting salary—not market value—and we competed for a too-small pool of salary increases. This organization created sexist hiring practices—both incongruent and lacking in integrity.

Many companies calculate your salary increase based on your current salary plus whatever the manager thinks you accomplished in the past year.

That means that people who don't negotiate—or don't know how to or don't realize they *should* negotiate—receive a lower salary (and bonus). (If you suffer from low self-esteem, you tend not to negotiate. You're grateful anyone offers you a job. Sheryl Sandberg discusses how women tend to feel this way more often than men in *Lean In: Women, Work, and the Will to Lead* SAN13.)

From what I've seen, if you take a lower salary at an early job, that lower salary might persist throughout your career—especially if you stay at that early job for many years. And, while your company might not discriminate based on gender as mine did, you can be sure the company discriminates on something.

Salary Transparency Can Solve Salary Disparity

Salary disparity exists because the salaries are secret. No one knows what other people earn.

The more secrecy, the more disparity can occur. If companies published everyone's salary, everyone could assess their situation relative to the rest of the organization.

I know of very few organizations that publish their salaries. However, transparent salaries make disparity impossible.

When the organization ties job performance to money and bases raises on current salary, they're not "managing" a person's performance. They're managing salary costs. And, that means managing performance can lead to employee *disengagement*. (I left that first job within six weeks of my conversation with my boss. Yes, I found a better job for more money—and better engagement.)

4.1 Myth: Performance Management Creates Employee Engagement

Becky, a senior engineer, was ready for her one-on-one. Three months ago, she and Stan, her boss, were supposed to design her yearly performance plan. She thought they were crazy to create an annual plan, but that's what HR wanted.

She wanted to limit the number of goals to four or maybe five. She was pretty sure Stan wanted at least a dozen. In the one-on-one, they compromised on eight goals, all project-based.

Two months ago, when Becky's projects changed, she told Stan she wanted to change her yearly goals. He postponed that discussion.

One month ago, Becky's projects changed again. She asked Stan to work with her to update her yearly goals. He postponed that conversation again.

Now, three months later, Becky's projects have changed again. Two days ago, she told Stan she wanted to address her yearly goals in her next one-on-one. She wasn't going to let him slither out of the discussion today.

Becky arrived in Stan's office with several documents. She waited until Stan joined her at his visitor's table.

"Stan, we need to revisit my yearly goals."

Stan frowned. "Why?"

"Because I'm not on any of the original eight projects. You canceled half of the projects. The other half you gave to other people. You've changed everything I'm supposed to do every month this year. I'm concerned you're going to tell me I'm not pushing myself enough for the raise I'll want."

Stan looked around his office and sighed.

"That was your plan, wasn't it?"

“Not really,” he said. “But I have no idea how to give you the work you need for the promotion and the raise you want.”

Becky leaned forward and whispered. “Make my goals about how I help other people improve.”

He looked at her with a blank look. “Help other people, not projects?”

She resumed in a normal voice. “You know as well as I do that I’ll change projects a gazillion more times this year. But focusing me on helping other people improve instead of my specific projects? That’s performance management at the team level, not the individual.”

Stan nodded. “Well, that makes a ton more sense than what we do now, especially since we want all of you to collaborate. I have to get approval.”

Becky stood. “Get it, Stan. I’m not spending another week here if you don’t.”

“Are you threatening to quit?” he asked.

“I’m promising,” Becky said. “I’ve been here for more than three years. Every year, we’ve changed my goals several times a year. This year, it’s been every month.”

Stan nodded. “That’s true,” he said.

“Individual goals don’t make sense and don’t work,” Becky said. “You don’t manage my performance. I do. You know that, too. Especially since we’ve started to use agile approaches, individual performance management makes no sense.”

Stan leaned back. “Well, that’s true.” he paused. “Aren’t you going to sit down for the rest of our one-on-one?”

“Nope. We don’t need any more one-on-ones,” she said.

Stan raised both his eyebrows. “Oh?” he asked.

“Look,” Becky said, “You have two big action items. You need to work with HR to end this top-down performance management.

And, while you're at it, make sure you start to create some form of team-based compensation if you want us to work as an engaged team."

She left.

Stan slumped in his chair. Performance management was a huge problem now.

4.2 Performance Management Creates Disengagement

I've asked both managers and technical people about any positive experiences with performance management. Many people find the feedback helpful. Most people—including the managers—do not find goal setting or the yearly need for paperwork useful to create employee engagement or to accomplish the work.

I addressed the issue of performance reviews from the employee's perspective in Book 2. This chapter is about the organizational aspect of why performance management creates employee *disengagement.*

Here's why performance management creates disengagement and discourages innovation:

- In a knowledge work organization, we want people to learn with and from their peers at every level. And, we want people to learn with and from their managers. In performance management, the learning flows from the *manager* "down" to the employee (the person who does the work). The employee does not help the manager learn—even though the employee knows the most about their work.
- In an innovative organization, the basis for performance changes during the year. The goals we so carefully craft at the start

of the year become useless within weeks or months. The organization changes the mix of work.

- Performance management focuses on an individual's resource efficiency, not a team's effectiveness. Or several teams' effectiveness if we want to deliver a large effort. If we want people to change their behavior, we need to change the environment. (See Environment Shapes Everyone's Behavior.)

Many aspects of performance management create disengagement. The worst example I've seen is ranking people in the organization.

4.3 Ranking People Creates Disengagement

Have you ever been part of an organization that attempts to rank each person in a department and then fire the bottom x%, where x was often 10%? Jack Welch of GE publicized and used this strategy. (His nickname was "Neutron Jack.")

If you force rank—even once—the people who find this practice disrespectful will leave the organization. I did.

You successfully build a culture where the remaining people value forced ranking. In my experience, you create a cutthroat culture based on resource efficiency, not a culture of collaboration based on flow efficiency.

When you rank people, the culture reinforces the idea that *who* gets ahead matters more than excellent outcomes for the customers.

If you continue to force rank, you create a culture where:

- People work to protect themselves, not to create great products.

- People work to maximize their review/evaluation, not for the good of the company or the product.
- People stop taking risks because it's not safe to experiment and learn. If you make a mistake, you have a real risk of being fired.
- Managers consciously hire inadequate people so that they'll have someone to fire.

There's another side effect of ranking people. Some managers think they can fire the bottom 5-10% of the "lowest" people.

Every manager I meet prides him or herself on hiring the best people. If you hired the best people, why would you fire any of them?

I suspect that most organizations that use "rank-and-yank" use this practice to manage salaries. Rank and yank does not create employee engagement. Rank and yank reinforces cynical people—people who are out for themselves and no one else.

I'll discuss ways to manage salary expenses later in this chapter.

Too many performance management activities create employee *disengagement*. It's not difficult to create engagement—start with meaning.

4.4 What Creates Employee Engagement?

I've asked plenty of people why they work. They all agree they need a fair wage. Some people like to be a part of something greater than themselves. Several people told me it was the company's mission, the purpose. (See Start With Why.)

Some people told me they wanted to be a part of a high-performing team. Again, something greater than themselves. Some people told me they wanted a chance to learn something "important" that they could use to extend their skills in some way.

Engaged people work for autonomy, mastery, and purpose, as Dan Pink said in *Drive: The Surprising Truth About What Motivates Us* PIN11.

If you believe the people you serve are adults, you don't need to manage anyone's performance. You might need to consider your actions for how to create an environment in which people can succeed:

- You might have to define or refine the organization's strategy or mission so people know why you asked them to work on *this* product or project or experiment.
- You might have to manage the project portfolio so people focus on one and only one project or product.
- You might have to offer feedback and coaching or assist others in offering that feedback and coaching.

I recommend you find a way to offer reinforcing feedback as often as possible.

It seems so easy. Offer people a purpose greater than themselves. Offer people autonomy in their team or their work. Offer people a chance to learn, to increase their mastery. When you offer purpose, autonomy, and mastery, people become and stay engaged.

This is easy for me to say. You might have to work against your current culture or environment to do this.

People disengage when they don't have autonomy, mastery, and purpose.

We still need to manage salary expenses and offer people meaningful work.

4.5 Options to Manage Salary Expenses

We have several ways to manage salary expenses:

- A career ladder, so people understand their levels.
- A salary structure for a specific job level.
- A separate, profit-sharing bonus, especially if the organization has more profit at the end of the fiscal year.

And, if you can create a safe-enough environment, consider asking people how they feel about making all salary information public.

Too often, career ladders are about technical and functional skills, not interpersonal skills. The more innovation you want in an organization, the more interpersonal skills count.

Create Career Ladders

People—the people you lead and serve—provide outcomes. The outcomes they provide this year are more difficult than the outcomes you needed one, two, or five and more years ago.

Because the outcomes differ, your job as a manager is to facilitate the team's learning so they can achieve new and more challenging outcomes. I like to ask this question: How can you help those people learn together, to become a product of their joint learning? (See *Symmathesy: A Word in Progress* BAT15.)

The more people learn together, the more they learn to master the interpersonal skills they need for their current team. And, the more teams they experience, the more they learn to apply those skills with more people.

That means managers rarely want to encourage a linear career. (If someone wants a linear career, that's fine. You don't have to