



# Managing Employee Performance Through the Down Cycle

Applying performance  
management technology

BY DAVID CREELMAN

The logo for Creelman Research features a stylized, red, cursive letter 'C' on the left. To its right, the word 'Creelman' is written in a red, serif font, with a horizontal line underneath it. Below 'Creelman', the word 'RESEARCH' is written in a smaller, red, all-caps, sans-serif font.

## Executive Summary

Performance management systems, when put on-line, provide at least three powerful tools for CEOs managing through a downturn:

- 1. Better Decisions: Better insight into individual performance helps you make informed decisions.**
- 2. More Maneuverability: Improved ability to manage goals allows your organization to change directions faster.**
- 3. Tighter Control: An opportunity to tighten the reins so that everyone remains strictly on track.**

It's not surprising that employee performance management software would be important in a downturn. A 2006 study by CedarCrestone showed that companies who use performance management software have higher operating income growth. Anything that can positively affect income is a coveted advantage in a downturn.

In good times it is easy to forget that down cycles are a normal part of business. When a down cycle hits, C-level executives need to recast their thinking from growth to conserving strength.

How one conserves strength depends a lot on the income statement. If your losses are driving you towards imminent bankruptcy you must desperately slash costs. But most companies are not in such dire straights and the onus on CEOs is to show thoughtful prudence in financial management. Dr. Jeffrey Pfeffer, a professor at Stanford warns "The worst thing to do is turn programs on and off. It's expensive to abandon something like a management development program, then try to start it up again twelve-months later."

In the human capital arena, programs should not be switched off, but how you use your systems may change. In particular your employee performance and talent management system ought to focus less on reward and more on control. If yours is a slow moving administrative system that merely keeps things ticking from year to year then it won't help. But if you have a technology based system, you can rely on it to do three things: help with decision making about talent, provide a mechanism to quickly drive changes through the company and tighten the reins to more closely manage the company.

***“How you use your employee performance and talent management system ought to change, focusing less on reward and more on control.”***

It's not surprising that employee performance management software would be important in a downturn. A 2006 study by CedarCrestone showed that companies who use performance management software have higher operating income growth. Anything that can positively affect income is a coveted advantage in a downturn.

### **Making Decisions about Talent**

CEOs value human capital, but it is impossible to ignore the biggest cost staring you in the face: salaries. Cutting some positions may be unavoidable.

Unfortunately, the research on downsizing is discouraging. Dr. Wayne Cascio, author of *Responsible Restructuring* looked at downsizing in the S&P 500 over an 18-year period. He found that the organizations who cut people and didn't change anything else were never better off than their competitors. Cascio points to the success of companies who treated their employees as assets and got them involved in finding creative ways to prosper in tough times.

The good news is that, having lived through so many badly managed downsizings, we have some insights on how to do it better. One aspect of doing it better is making smarter cuts.

The employee performance and talent management system gives you reliable information on which employees you must keep and which, in a crunch, you can do without. But knowing who the poorest performers are is not as easy as asking for your managers' casual

opinions. Research has shown that many biases lead to inaccurate assessments of performance. For example, there is the recency bias: what an employee has done recently overshadows their actual long-term performance. What leads to better judgment is on-going assessment of performance against goals, which is exactly what the employee performance and talent management system is meant to do.

***“The role of the employee performance and talent management system in making smart cuts is to give you reliable information.”***

As well as worrying about performance, companies need to worry about accurately assessing who has high potential. Again, the performance management system's data on competencies guides your decisions.

At this point many CEOs will think wistfully: “Well to be honest we don't have a good employee performance management system.” That's because most companies still run employee performance management systems that are paper-based (or are handled by emailing forms back and forth, which is not much better than using paper.) You can't run an effective employee performance management system on paper any more than you could run material resource planning or customer relationship management on paper.

The point of having an employee performance and talent management system enabled by technology isn't just that you have good data in a computer somewhere. If managers are seriously thinking about performance and potential on an on-going basis they will be much more attuned to who they can cut and who they can't.

If you have an on-line system, then you are smiling. If not, it's not too late to use technology to get a better handle on your talent.

### Use Your On-Line Performance & Talent Management System to:

1. Identify high performers
2. Identify those with high potential
3. Identify competencies that are rare in the company

software so customizations can be maintained? Will big fees be charged to switch?

### A Company-Wide View Improves Decision Making

A well-known piece of management wisdom is that A-players hire A-players and C-players hire C-players. This means talent will be distributed unevenly between departments. Some managers will have routinely hired great people whereas others will be up to their necks in mediocrity. Yet when we cut staff we tend to do it department by department. A smarter kind of downsizing would look at talent company-wide.

Another reason to look at talent company-wide is the need to know which competencies you have in abundance and which are in short supply. For example, many companies have plenty of managers with good financial expertise, but relatively few with good international experience. If staff has to be cut, the organization needs to be able to look company-wide to see where its competencies and know-how lie.

***“You can’t run an effective employee performance management system on paper any more than you would want to run material resource planning or customer relationship management on paper.”***

### Driving Change through the Company

As companies shift from the up cycle to the down cycle, the C-level executives need to change their thinking - and so does everyone else. It's not unusual for the staff to be many months behind the C-suite in understanding the changes needed.

If the economy has changed direction, then you will want to drive changed goals throughout the system now, not wait until the annual performance cycle in eight months. Employee performance and talent management never used to be an effective steering tool because it was too slow. Technology has changed this. With technology you can run short performance management cycles or even implement “as needed” changes, driving new goals through the system without waiting for the next formal cycle.

***“It’s not unusual for the staff to be many months behind the C-suite in understanding the changes needed.”***

Performance management technology can also be a means to improve alignment through lateral communication, not just top down coordination. Usually information about goals flows up and down the hierarchy, but there is no reason why the marketing department could not look at the goals of the production department and vice versa. This would help them understand what their peers are working on and what they need to do to coordinate efforts.

Technically, this is easy to do once the data is in a web-based system. Culturally, it can be harder to do, but a culture with strong cross-departmental communication will outperform one where the silo walls are thick.

Going from zero to a system is not out of the question—in fact it's common. If you are able to implement a technology based performance management system in a couple of months (or even weeks), then you can use it to navigate through the next quarter, not just in some distant future.

### Driving Change

- 1. Don't assume everyone understands what needs to change as well as you do.**
- 2. Change the goals now, not at the next annual cycle.**
- 3. Share information about goals between departments to improve alignment.**

### Holding the Reins Tight

It's natural in good times to give managers and employees more slack. Maybe someone is interested in developing the company's ability in global sourcing and wants to visit Eastern Europe. In good times that might seem like a prudent way to build long-term capability. In tough times it looks like an unnecessary expense.

In a downturn, performance management systems help leaders keep an eye on what people are working on. As a manager you can flip through the screens to see the goals

individuals have set and their progress towards those goals. Leaders need to be sure that employees are not just carrying on as if nothing in the economy had changed. It's a way to tightly manage the company in a time when there is less room for error.

Holding the reigns more tightly is not just about making sure that people are keeping focused on the urgent short-term tasks. It's also about making sure that managers don't shelve important long-term goals with the false impression that the C-suite cares only about the short-term.

### The CFO Trap

When revenues slip it's natural for CFOs to come down on the side of not wanting to spend any money. In fact, we want them to play that role, to be the voice of caution. However, in a downturn you need to make prudent investments just as you do in a strong economy.

Infrastructure that helps organizations get the most out of their existing talent can be a good investment even in a downturn because of the short payback time. We have already walked through the main payoffs of having a working employee performance management system enabled by technology. The time it takes to get a system in place is one to three months. After two quarters the system will be providing a return based on better agility and control.

The system can also, after three or four quarters, begin to improve the understanding of which employees are strong performers. Because a technology-based system allows for on-going collection of data and on-demand goal revision, it can get managers thinking clearly about (and documenting) the actual performance of their

people. Even after six months the data on which employees are “keepers” will be better than the company would have if they hadn’t invested in the technology.

***“Infrastructure that helps organizations get the most out of their existing talent can be a good investment, even in a downturn, because of the short payback time.”***

It’s worth mentioning that investments in employee performance management technology are normally justified simply on the basis of the easily quantified savings in administration. The administrative savings are significant, but the CEO and CFO should be concentrating on the technology’s value as a management tool. The competitive advantage from an effective performance management system lies in better control of the company and better insights into talent - if the leadership just focuses on administrative savings, then they may miss the bigger payoff.

## **Conclusion**

For most companies a recession should be nothing to fear. It’s a time to change focus, cut some costs, tighten the reins and steer deftly. Performance management technology is a great piece of infrastructure to help with all of these goals. It’s not particularly expensive, disruptive, or risky. It doesn’t take long to implement. It’s a fundamental piece of infrastructure that has long been missing and it’s hard to imagine an organization that would not benefit from getting it in place.

## Preparing for Tough Times in Alaska

Headquartered in Anchorage, Alaska WHPacific works in architecture, building engineering, land development, survey, transportation, and water resources. In good times and bad, their employee performance management system is an important managerial tool.

The idea of employee performance management as a genuinely helpful tool both in upturns and downturns may seem odd to some, used to the old paper-based system.

Juliana Cobb, corporate counsel at WHPacific explained, “When it was pen and paper, it wasn’t a tool for enabling people to improve because it was too cumbersome; it took half a year to get through the process. Like everyone else we tried to do the right thing. But it wasn’t until there was some kind of technological EPM that we were able to use this as a development process.”

The performance management system ought to play a strong role in helping companies work through tough times, but without a technological infrastructure it can’t do the job.

“It is a tough time in our industry. We have to be careful to provide honest and accurate feedback to the individuals who work for us so we can assess their value to the company in the event that reduced workloads compel us to reduce our workforce,” said Cobb.

But concentrating on the evaluation aspect of performance management is misleading.

“We don’t use our evaluation system to hammer people down. We use it mostly as a tool to help them climb up the ladder and find how they can become more valuable,” explained Cobb.

In tough times the value of having developed a capable workforce matters even more than the ability to trim the workforce effectively.

## Staying the Course in Iowa

Based in Davenport, Iowa Lee Enterprises is the fourth largest newspaper company in the U.S. in terms of dailies owned. While other companies may be using their performance management system to change directions Lee Enterprises has a different message for its employees: stay the course.

While the newspaper industry in general is suffering, Lee Enterprises has had only minor setbacks. Employees need to know that, despite what they may hear about the newspaper industry, at Lee they just need to keep working hard at their existing strategy of serving local markets.

Julie Stickney director of human resources at Lee Enterprises said, “We use performance management as a tool to communicate internally. We are reinforcing that we have a winning strategy and employees just need to stick to their guns.”

Stickney sees employee performance management as a true management process, not an administrative one.

“Performance management is about conversations that supervisors have with their employees,” said Stickney. “It gives managers an opportunity to link what employees do every day to the company’s mission. It creates the place for a manager to convey to someone selling automotive or real estate advertising that we know you are walking against the wind, but here is what you need to do.”

Different managers use the system in different ways. Some are power users and get real advantage from it. Others are not so skilled. But overall it is one of several communication systems that keeps employees focused on how their work links to the key priorities that underlie everything Lee does.

It’s all a matter of keeping the business on course though thick and thin.