Do You Trust Your Employees?

Separating Performance Measurement From Planning

By Gregory Milano

Most of us know we are trustworthy and want to get our work done without having to be micromanaged. Indeed, we often work more efficiently without interference from above, and we see little need for getting approval for things we know better than our supervisors. Bureaucracy and red tape tend to only make the company more wasteful, and they ultimately make our jobs less enjoyable.

But if we put ourselves in the shoes of senior leaders at large companies, it's easy to see why things can run amok. Often, business units submit budgets and plans to corporate for approval that are sandbagged—which is to say they reflect lower performance expectations than they actually believe can be achieved. Why would they do this? Such budgets and plans are often the basis for setting performance targets in incentive compensation plans, so low targets make it easier to earn outsized bonus payments.

These types of problems also happen in reverse, when the business unit leaders submit requests for capital and other resources. To get their desired spending approved, they often overstate the project's expected benefits, knowing they won't be held to these expectations when it comes to measuring performance later on.

With their subordinates understating some forecasts, overstating others and generally manipulating numbers to bias their outcomes in their favor, how can they be trusted to do what's right for the company? Of course, it's not that these managers are not trustworthy—most of them are. The problem is that most companies employ business management practices that reward gamesmanship.

Shareholders, for the most part, want their executive teams to reach for the stars. To put it numerically, they would prefer that management aims for 10% improvement and maybe achieves 8%, rather than planning for 2% and achieving 3%. But most managers earn more for themselves and their family by aiming for 2% and achieving 3%. So this raises an important question: Why are we paying managers to plan for and produce mediocrity?

Companies should address this problem by rethinking their approach to goal-setting, planning, decision-making, performance measurement and incentive compensation. When done effectively, such changes go far beyond business management processes; they permeate company culture and affect how colleagues communicate, share information openly, and how they evaluate operating decisions from a shared perspective.

Centralization Versus Decentralization

Many companies cycle back and forth between relatively centralized and decentralized structures, and this creates instability and uncertainty. They see the benefits of pushing decisions out into the field to get closer to the customer. But since they tend to grant authority without adequate accountability, outcomes are often worse than expected. This leads to recentralization to get things under control. Then decisions are once again made without the crucial inputs of those in the field—and the cycle begins anew.

It is critical to understand the difference between real accountability and what happens at most companies in which managers are essentially taken off the hook. The common practice of measuring performance against a plan or budget may seem like it would drive accountability, but it's a measurement mirage.

Managers know that it doesn't matter if their performance improves or declines, since they will be paid the same in the decline as long as a downturn is baked into the plan. Contrast this with an organization where compensation is linked to actual performance, regardless of what's in the plan. Once absolute performance, in terms of performance this year versus last year, matters more than variances to the forecast, managers realize the only way to earn more is to create more value for the company.

This is real accountability and it leads to some very different behaviors. For example, before managers ask for an investment to be approved, they must be convinced that it will pay off. If it doesn't, they will personally earn less money, so why propose it? In such an environment, decentralizing decision authority works better because there is true accountability for outcomes.

Trust Your Team

With the right framework for granting teams both authority and accountability, companies can forge a strong alignment between the interests of managers and business owners. The result is better performance and more trust in each other's motivations and decisions. When a CEO speaks with the head of one of her business units, she will appreciate the added transparency that results, since both sides are not posturing for budget negotiations.

Think about how your company manages decisions and measures performance, and consider ways of better aligning management with company outcomes. You may be surprised by how much more trustworthy your employees will seem.

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