VITALITY HEALTH

A better Corporate Performance Management System to Retain Top Talent
Beth Williams stepped in to fill the shoes of Fred Kikuchi in 2009 as the new CEO. Her primary stated purpose was to “find a better way to identify and reward top performers in order to keep ‘A’ players in their positions and accelerate company growth by attracting new top talent.” To do this, Beth created a new performance management team (PMET) to study the existing rewards & compensation, and uncover changes that needed to be made. With over 50% of the staff in Des Moines consisting of scientists and engineers, and a total R&D budget nearing 30% of total gross revenue in 2009; Vitality’s growth depended heavily on continued human resources for R&D, especially due to Vitality’s focus on emerging markets and the volatility that comes along with such growth.

Beth discovered that the pre-2008 grading system of 13 grades from A to E opened the door to managerial abuses. The 2008 performance review rating distribution chart showed that 87% of employees were rated between a (B) and a (C) while only a scant 0.05% of employees got an (A) rating.

Managers’ fear of upsetting the balance of teamwork within their functional groups created increased animosity and diminished the value of truly great employees. One of the lab scientists described his discontent by saying, “I cracked the code for the latest generation of Ocucream and what do I get? A pat on the back and a 2% raise. If you go down the hall you’ll find two guys who get 5% just for showing up.” Furthermore, research scientists who had been leaving the company voluntarily had averaged 5.1 annual R&D breakthroughs, an average of 1.4 per year. “Furthermore, research scientists who had been leaving the company voluntarily had averaged 5.1 annual R&D breakthroughs, an average of 1.4 per year. “Furthermore, research scientists who had been leaving the company voluntarily had averaged 5.1 annual R&D breakthroughs, an average of 1.4 per year. “Furthermore, research scientists who had been leaving the company voluntarily had averaged 5.1 annual R&D breakthroughs, an average of 1.4 per year.

Beth’s intentions were sincere in her attempt to restructure the performance management system by simplifying grading to four main categories, but unfortunately her delivery fell short, this is not uncommon within companies that try to implement a CPM system. The co-creator of the balanced scorecard, David Norton, found that “9 out of 10 companies fail to implement their strategies” referring to Corporate Performance Management; a staggering figure considering the amount of human and capital resources available to most large organizations including Vitality.
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**Issues**

**ISSUE #4: THE EITHER/OR TRANSFORMATION LENS**

The division of those who had a positive experience with Beth’s newer performance management system and those who had negative experiences created a division or an “Either / Or” transformation lens (Jacobs, Brinkerhoff, Johnson pg 3). As stated in the Change Champion’s Fieldguide, where management and employees were surely divided into two camps; one camp believed that Beth’s particular change was truly vital to the organization, and the other believed that if they make the changes the company will lose sight of what made it successful.

**ISSUE #5: COMPENSATION AND INCENTIVES FOR PERFORMANCE**

A recurring theme among anonymous employee comments is that with the old system of performance management employees were at least rated for and not against each other. Beth’s new CPM system and compensated against their job requirements. Management employees were at least rated for and not against each other. Beth’s new CPM system and compensated against their job requirements. Management felt that the system “made it more difficult to discuss performance with employees because the yearly review process was tied so closely with merit increases”.

expressed discontent with others getting rewarded just for showing up. The confusing compensation system didn’t focus on team goals and allowed for compensation regardless of departmental shortcomings. This lack of meaningful performance based goals tied to compensation was a key reason for the voluntary resignations of top R&D staff.

**ISSUE #6: ANNUAL REVIEWS**

Lastly, an issue, existed with the old system and carried over into the new, was performance reviews were only performed once a year, as opposed to quarterly or monthly, coinciding with the company’s annual goal setting process. Management felt that the system “made it more difficult to discuss performance with employees because the yearly review process was tied so closely with merit increases”.

As Vitality looks at revising their newer corporate performance management system, they should follow a successful model being implemented in many organizations: the Five Key Principles of Corporate Performance Management. This will give much needed structure to Vitality’s failing system and answer many of the issues presented.

**Analysis & Recommendations**

**PRINCIPLE 1: CAPTIVATE AND MANAGE STRATEGY**

By refreshing and re-communicating the strategy through management and employee training, the entire organization will be able to understand the vision that Beth is seeking for continued growth, addressing issue #4: The Either/Or Transformation Lens. Vision barrier research by David Norton underscores this problem stating that only 5% of company’s employees fully understand their company's strategy (referring to Corporate Performance Management). Through his extensive research he found that “strategy is rarely communicated in terms that relate to people’s everyday objectives, roles, and responsibilities.” (Paladino, Bob pg 12)

Next, by cascading and managing the strategy through what is called the balanced scorecard as stated in Principle #3 of the wheel, the organization will have “a way to ‘connect the dots’ between the various components of strategic planning and management, meaning that there will be a visible connection between the projects and programs that people are working on, the measurements being used to track success, the strategic objectives the organization is trying to accomplish and the mission, vision and strategy of the organization.” (How to Create a Balanced Scorecard) addressing Issue #1: Follow the Leader and Turnover Cost.
Creating performance-based expectations of management and employees within Vitality will ultimately set employees at ease regarding what is expected of them, thus matching Vitality’s original vision “Outer beauty can only be achieved as inner harmony is reached” to the corporate strategy. This will also allow Beth and her management teams to thoughtfully measure performance based on companywide vision and provide a new system for performance payout that does not include a confusing forced distribution that only values individual performance addressing Issue #3: Abuse and Forced Performance Distribution. The Tennessee Valley Authority case study in Five Key principles of Corporate Performance Management highlighted the success of performance-based payout addresses Issue #5: Compensation and Incentives for Performance. Tennessee Valley Authority, the nation’s largest public power producer, implemented what was called Winning Performance payout. “Team incentive is paid in addition to any monetary award received through annual performance reviews. Employees below the executive level have no pay at risk. When performance targets are achieved, employees receive their annual pay increases plus whatever incentives exist with the winning performance program” (Paladino, Bob pg 179) The combination of strategic business unit goals and stretch goals (numbers above the target) as well as performance based feedback is limited to 140 characters and work can be extremely complex or creative, where the key “Microfeedback” This performance based feedback can largely undermine employees’ work ethic.” (Meister, Jeanne C., and Karie Willyerd)

Beth’s goals of creating a more nimble and competitive global organization were not cascaded down the organization and instead, she focused on the symptoms of poor R&D retention. A newly appointed co-chair of CPM should be able to continually adjust the Balanced Scorecard and align the company vision with performance goals as well as understand and measure barriers to success. The performance data for the Balanced Scorecard has already been collected by Vitality’s PMET with input from management simply needing to be applied to the scorecard and reviewed by management to ensure the right data points are continually being collected.

Principle four and five of The Five Key Principles of Corporate Performance Management, to Improve Performance, and Manage and Leverage knowledge respectively will need to be constantly checked by the CPM office. As stated by Bill Kolz, the senior program manager for TVA, “Selecting the right measures is challenging. Sometimes despite our best efforts to rationally select a measure, we discover as the year progresses it drives the wrong behavior.” (Paladino, Bob pg 179) The constant tweaking to develop the right behaviors as well as “capturing and reusing enterprise-wide intellectual property to leverage the companies best minds, best practices, and innovations” (Paladino, Bob pg 35) are all things that the CPM office will need to be responsible for.

It also should be noted that Beth Williams and PMET should be aware of the correct balance of job motivations of R&D staff, as opposed to sales and marketing staff. In the case of R&D and scientists, where work can be extremely complex or creative, bonuses and other forms of variable pay for performance can largely undermine employees’ work ethic.” (Neely, A. D. pg 440) This phenomenon was coined the “crowding-out theory” by the distinguished Professor of Economics at the University of Zurich. Intrinsic motivation or value for it’s own sake versus extrinsic motivation or satisfying needs indirectly through monetary compensation, depends largely on the category that employees fall into. In the case of some segments of staff within Vitality “Extrinsic motivation is sufficient when the work is routinized and the performance is easy to measure” (Neely, A. D. pg 442) a theory deemed “The Price Effect.”

Many recent studies point to money being far from a primary motivator on all levels of organizations, but it’s summarized best with the following quote “Emotional sources of motivation are more powerful, and they are best conveyed informally in an organization through the respect of peers, the admiration of subordinates, the approval of one’s personal network and community and the like”. (Katzenbach, Jon R., and Zia Kahn)
The underlying problem within Vitality’s performance management system despite record growth will lead to a continued loss of market share. Many leading companies are faced with a similar fate as they often “produce incremental improvements and follow their core technologies to obsolescence and obscurity, while companies that are able to produce technologically radical innovations become the new leaders.” (Mitchell, 1989) If Vitality Enterprises successfully reorganizes the PMET into a department and replaces, much of the current performance management system with a proven balanced scorecard methodology, they will surely continue to prosper despite market volatility. It is critical that Vitality moves towards rewarding individuals based on measurable performance, as well as include team-based incentives. The animosity among staff members regarding current compensation should be immediately addressed and replaced with a system similar to TVA’s “Winning Performance Payout” where online tools for monthly reporting and measurement are available in addition to a dedicated CPM staff assisting in benchmarking best practices. These changes alongside quarterly reviews replacing annual will go a long way to improving morale and retention within Vitality. With time and the right performance management team in place to follow the Balanced Scorecard methodology, Vitality should finally be able to realize an inter-organizational harmony in line with the external mission of the company.

References


