



PERFORMANCE MANAGEMENT

A Short but Vital Case Study

The President of Consolidated Delivery Inc was concerned about the exciting opportunity he was facing.

After several months of intensive negotiations he'd persuaded an outstanding performer in the industry to join the ConDel team as VP for the troubled Southern Region.

The new man was 'magic' but notoriously difficult to manage. For the third time the President re-read the Position Mandate he'd prepared. Would it be enough to guarantee results?

■ ■ ■ ■ ■ ■

MANDATE (Sample for the position of Regional V.P - South)

Scope: Responsible for leading and managing Corporate Development, Human Resources, Product Sales and Service, Production and Technology within the designated Region, with specific emphases on product sales and service, production and technology over the next two years. Incremental top line growth is to equal or exceed 23% annually through the development of a full service menu, identification of regional / national accounts and the cultivation of business alliances. Production growth will be attained and sustained through best practice leverage, technological utilization and administrative minimization. Technological achievements will be realized in the areas of competitive differentiation and performance management effectiveness.

A primary task over the next 18 - 24 months will be the development of substantial bench strength at the mid-management level in both operations and sales / customer service areas.

Close collaboration with other regions is vital to substantial growth, particularly the application of 'best practices', and initiatives within this area of continuous improvement are anticipated with immediate effect. Technological support will be provided by corporate staff, particularly in the rapid deployment of "ConTex" and similar market differentiation projects.

Resources & Restraints: The Region comprises 5 Business Units currently, and will expand to 6 within twelve months. Senior level Operations and Finance Managers are established, with a new Regional Sales Manager to be appointed immediately. Acquisitions are well integrated and will be sustained but with increased productivity to support anticipated growth. The region is self-supporting and will finance all growth from within existing revenues while meeting margin goals (reviewed quarterly).

Immediate and substantial increases are expected in the areas of service responsiveness, customer acquisition, and customer satisfaction, notwithstanding any fresh initiatives in other areas. Poor performance in each of these areas over the past two years is an impediment to be rectified, and additional staff resources are available, for up to six months, to achieve this.

Results / Outcomes: The following five goals have been agreed for FY 00/01:

Revenues to average \$7.35m/mo (22%+) or better by June 30, '01 - organic growth;

Business Unit 6 to be established with a profitable revenue stream by Dec 31 '00;

Selling costs to attain 13.5% of annualized sales by Nov.30, '00 for all B.U.s;

Internal efficiency gains to match 3.5% for Q1, 2.5% for Qs2-3, and 2.0 for Q4;

New business to equal 18% of monthly revenues by Dec. 31, '01.

In the accomplishment of these goals, staff levels and morale are to be maintained, and a key person development program is expected to be in place and working by the end of the period. 'Strategic Alignment' practices will be implemented, involving all staff, and positive customer relationships are to be specifically encouraged. Not less than 3 days will be designated for personal professional development by Dec 31, '00

Timelines: Through the first six months of this Mandate there will be formal monthly review meetings with the COO / President. The CMIs specified in the PM Contract will be used to track achievements. Status / Variance reports are to be submitted by the fifth working day of each month. Timelines for the above-stated goals will not be extended within the first 6 months. Thereafter, the national productivity index may be applied to all designated and future business goals in areas other than customer service and staff relations.



“Well, it clearly states my expectations,” the President thought, “but how can I get ‘buy-in’? Also, I’d like to have the comfort of knowing how he intends to proceed, but I can’t manage the business too closely - I’d lose him for sure. I’ve been accused of ‘micro-management’ in the past and there’s no way that would help in this case.”

Giving up control, trusting to blind faith, was not an option either. The President knew that the new man would handle things differently from the way he would, that’s why he needed him! “I don’t need another clone,” he reflected, “that’s what got me into trouble last time! I do need to keep my finger on the pulse though.”

If the new man was attracted by means of a contract, could he be retained in much the same way? A ‘contract for performance’ seemed to make a lot of sense. The President took a blank sheet of paper and wrote three headings down the left side - ‘Strategy’, ‘Critical Measurement Indices’ and ‘Reporting’. Then he listed his ideas, ‘needs’ and ‘wants’ under each heading, making frequent references to the Mandate he’d recently prepared. The next step was to invite the newly appointed Regional V.P to use the Mandate to do exactly the same thing.

■ ■ ■ ■ ■ ■

PERFORMANCE MANAGEMENT

(President's Needs / Wants of Regional V.P. South)

Strategy: Your Business Plan & associated Budgets are to be reviewed and approved no later than Oct. 15, '00, and a Personal Development Plan for all BU Managers, RSM, RFM and other key personnel is to be presented no later than Jan. 15, '01.

Your Strategy should reflect the priorities indicated in your Mandate (attached), and must be compatible with the mature but under-performing status of the Region. You are expected to work in close collaboration with the COO and other regional management as well as corporate staff personnel in the planning and implementation of your strategy. You may use other resources available to you, both in planning and execution, provided that your total administrative costs do not exceed 8 percent annualized,

Critical Measurement Indices: In addition to the identification, management and reporting of any Critical Issues as defined in the Corporate Strategic Plan, the reporting of all relevant new Initiatives taken, and the current status of the Results / Outcomes specified in the Mandate, you are requested to report periodically on the following specific CMIs:

Top Line Growth / EPS Growth related indices

(including yield [@ >13.5% of sales] and gross margin [@ < 22.5%])

Operational Productivity / Best Practices / Efficiency gains (CSR [1.5%]; Dispatch [2.5%]; Drivers [+12% earnings gain]; Sales prodn [less than 21% s.c])

Technology Utilisation (MIS; CIS; PMS initiatives & incidents)

Administrative minimisation (less than 8% ann.)

Client Support (CSR turnover [less than 8% ann.]; driver retention [30% improv])

P&D Capacity (Recruitment [min level @ 85%]; Retention [less than 20% turnover]; and Costs [within 32% - 36% range]).

Status / Variance Reporting: A personal Status /Variance Report, following the attached format, is to be forwarded electronically to the President by the date/time agreed, and not less frequently than every tenth working day. Periodic meetings / tele-conference calls will be scheduled within 48 hours of receipt of each report.

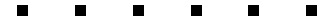
Personal reports should be in summary form, but with additional detail on specific Action Plans to be made available on demand.

Contributions to corporate and group goals and initiatives will be scheduled independently at the call of the President. Such meetings will be held bi-monthly, with intervening tele-conference sessions as required.

Any Action Plan component which materially affects the interests of another Region shall be copied to that Region.

Action Plans which are expected to extend beyond 90 days in duration will contain both a separate

- **Monitoring Plan** (what is to be measured, by whom, when and who is to be advised), and a
- **Communications Program** (Who is to be able to access what information, how and when).



Both now had opening 'positions' and were ready for a little 'win-win' negotiating. It took several passes and consensus in some areas was built very slowly, but finally agreement was reached on all points. The Regional V.P made his perspectives very clear. "I'll keep you informed," he said, "but I'd prefer that you intervene only when it's truly necessary, and still leave the initiatives to me." "Fine!", said the President, "I can do that as long as you don't surprise me in any negative ways."

"I'll present you with a 'score sheet' any time you ask for it," offered the Regional V.P. "Why don't we leave that flexible, but agree that it won't be less frequently than every fifteen working days?", countered the President. "Agreed," said the V.P, and immediately began to think just how he wanted to structure such a score sheet.

"It can't be too detailed but it has to cover all the CMIs we've discussed, plus my specific Goals." After some more thought he built an Excel spread sheet, three columns by four horizontal divisions. The first of the divisions was entitled ***CRITICAL MEASUREMENT INDICES (Health)***, the second was ***RESULTS / OUTCOMES (Growth)***. Then he added ***CRITICAL ISSUES (Concerns) - top 3*** and ***NEW INITIATIVES (Dreams) - top 3***.

Translating the agreements from the Performance Management contract negotiations (CMIs) and Mandate (Results / Outcomes) was simple, and listed readily under column one. The more complex task of setting up the CMI monitoring and measurement strategies was a most useful exercise in getting to know and establishing rapport with the V.P's new direct reports. Once the base line numbers were derived, tested and accepted, it was a simple matter of plugging in the new numbers for each reporting period. Set up time was extensive but a very sound investment.

It was now almost a 'no-brainer' to put the numbers together, analyze them and to ensure that an appropriate explanation / action plan was annotated against each significant event. The Status / Variance Report was transmitted to the President electronically on the date agreed to following the previous review. The periods were shorter when there were sensitive issues, high levels of change and/or uncertainty, or close monitoring was deemed an advantage. In slow times, the reports stretched out to the full fifteen days, although this didn't happen too often.

"We've got a business to build," they said, "and this helps us to build it together!"



STATUS REPORT

(Sample for the position of Regional V.P South)

By: **I. M. Keene – Southern Region**

For the period: **September 4th through 15th, 2000**

CRITICAL MEASUREMENT INDICES (Health)

TL Growth / Yield:

[parameter >13.5% of sales]

EPS Growth / Gross Margin:

[parameter <22.5%]

Operational Productivity / Best Practices:

[parameters CSR-1.5% ^; Disp-2.5% ^

Drv-12%+ earn.gain; Sales Prodn <21% s.c.]

Technology(MIS/CIS/PMS)

[Initiatives / Incidents]

Administrative Costs

[parameter >8% annually]

Client Support

[parameters CSR turnover >8% ann;

Driver retention = 30%+]

P&D Capacity

[parameters Recruit min level – 85%

Retention level 80%+; costs = x-y%]

RESULTS / OUTCOMES (Growth)

Goal 1 Revenues \$7.35m/m (22%+) by 6/30/00

Goal 2 BU#6 established / profitable by 12/31/00

Goal 3 S.C. to 13.5% ann sales (all BUs) by 9/30/01

Goal 4 Int'l Effic=3.5%[Q1]

Goal 5 New Business = 18% mo revenues

Status / Variance (S/V)

Jul 00 = 14.2%

Aug 00 = 13.8% - Variance = (8%)

Jul 00 = 22%

Aug 00 = 22.6%

CSRs / Drivers - on track

Dispatch & Sales - behind plan

'ConTex' implemented

PMS in design phase

Aug 00 = 8.8%

static over past 5 mos.

Top priority for Q4'00

Currently @ 78% with 63% retention in BUs 1,3,4,5. BU 2 = 43% & 38% retn.

Status / Variance (S/V)

On Track –Q2/00 at \$6.35m

3 sites under consideration

Jul 00 = 14.5% - static

(BU1=13.8;2=19.1;3=15.1; 4=14.6;5=14.8)

Planning underway for CSR/Dispatch.

performance improvement

Currently = 11% - slow progress

Action Plan

continuous improvement

on track

CSRs – planning for staff reduction (1)

Drivers – route consolidation in process

Dispatch – recruiting 1 replac. Supvr

Sales – 1 vac + 1 marginal – recruiting

Coaching underway.

Monitoring closely

Completion by 12/15/00

Realignment in progress (A.P.003)

Results within 3 months.

New call schedules being implemented

New routing schedules BUs 1,2 and 4

Driver referral progr in design (see below)

Action Plan

Mkt penetration +BU#6

(see Action Plan 001)

final decision by 12/31/99

(see Action Plan 001)

Strat Align + Sel Tgt Mktg

Spec emphasis on Bus 2&3

(see Action Plan 002)

BU#6 impact + Bus 2&3 Strat Align.



CRITICAL ISSUES (Concerns) - top 3

1 Driver Recruitment - shortage in markets

2 Major Account loss due to unsuccessful bid

3 Loss of management focus / initiatives

Response / Adjustment Action

Intro Driver Council (Bus 1,3,4,5) to assist
Considering 'Sign-On Bonus' program

In depth review with Disp/Dvrs/CSRs on
service quality issues

Conducting Regional Management Mtg
Introducing Strategic Alignment program
Replacing 1 BU Manager

Prevention

Weekly meetings effective 10/15

Revamping pricing / contact schedules
Intensifying other Account contacts.

Action Plan 004 (att)
Corporate Initiative
Step up BU visits & intro Daily Briefings

NEW INITIATIVES (Dreams) – top 3

1. Design / introduce Staff Orientation program

2 Key Customer Forums by Market Niche

3 New Sales promotional literature/Website

Related Goal / CMI

Internal Efficiency (Goal 4)

Parallel Strategic Alignment introduction

Selling Cost reduction to 13.5%

Timings

due 12/15/00

Q1'01

first draft ready for approval

Collateral Issues: Strategic Alignment / Personal Development Initiatives

Next Review date: Suggest September 29th, 2000